2017

Annual Financial Report

Because there is more
that connects us.

deutsche apotheker-
und ärztebank

Content

436,260
Customers

111,494
Members

2,553
Employees

41,369
Balance sheet total (€m)

Overview of Business Development

Overview of business development

Bank data	31 Dec 2017	31 Dec 2016	Change[1] %
Members[2]	111,494	109,680	1.7
Customers[2]	436,260	415,700	4.9
Employees[2]	2,553	2,598	– 1.7
Locations[3]	84	84	–

Balance sheet	€m	€m	%
Balance sheet total	41,369	38,604	7.2
Customer loans	32,013	29,492	8.5
Customer deposits	26,037	25,797	0.9

Income statement	€m	€m	%
Net interest income[4]	606.2	625.6	– 3.1
Net commission income	156.3	139.0	12.5
General administrative expenses	– 530.1	– 516.4	2.6
Operating profit before risk provisioning	223.7	249.2	–10.2
Risk provisioning from the operating business[5]	12.1	5.7	>100
Risk provisioning with reserve character[6]	–103.0	– 95.3	8.1
Operating result	132.8	159.6	–16.8
Net profit after tax	61.9	61.0	1.5

Key figures	%	%	ppts
Equity ratio (according to CRR)	21.8	26.1	– 4.3
Common equity tier 1 ratio (according to CRR)	19.5	22.6	– 3.1
Cost-income ratio[7]	72.6	69.2	3.4
Return on equity after taxes[8]	3.6	3.7	– 0.1

Ratings[9]	Standard & Poor's	Fitch Ratings (group rating)
Long-term rating	AA–	AA–
Short-term rating	A–1+	F 1+
Outlook	stable	stable
Pfandbrief rating	AAA	–

1) Deviations due to rounding differences.
2) As at the balance sheet date.
3) As of February 2018.
4) Including current income from shares, fixed-interest securities, participations and shares in affiliated companies.
5) This includes individual risk provisioning measures for the customer lending business as well as for financial instruments and participations.
6) This includes risk provisioning measures which do not concern individual risks, as well as allocations to the fund for general banking risks and provisioning reserves.
7) Ratio of operating expenses and operating income. Operating expenses include general administrative expenses as well as other operating expenses. Operating income includes net interest income, net commission income, net trading revenues and other operating income.
8) Ratio of net profit and average equity (subscribed capital and revenue reserves plus adjustments to reserves).
9) Issuer credit rating.

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Letter of the Chairman of the Board of Directors

Dear Members, Customers and Busines Partners,

I am addressing you for the first time with this letter to the annual financial report in my role as Chairman of the Board of Directors of apoBank. I was appointed to this position on 1 September 2017. Before that, I worked for eight years on the Board of Directors with my predecessor Herbert Pfennig, who retired on 31 August 2017– a very intensive period in which many decisions and changes were made. I would like to offer him my sincere thanks for our time together and for his commitment to the Bank.

Developments in 2017: We achieved many goals

2017 was a successful year: Thanks to the great dedication of the entire apoBank team, our bank made good progress last year. On behalf of the entire Board of Directors, I would like to thank all of our employees for their hard work and express my special gratitude to our customers and members for placing their trust in us once again.

As planned, our net profit remained stable at a high level with 61.9 million euros. In the customer business, our growth strategy bore fruit: The volume of deposits from our physicians, dentists, pharmacists and veterinarians passed the eight billion euro mark for the first time; our assets under management increased from 2.7 to 3.2 billion euros. We also set a new record in the new lending business, which grew by almost 20 percent in start-up financing alone. The number of customers was up by 20,000 to 436,260, of whom 111,494 are members of our bank. This development shows that our business model with its focus on health care professionals and the health care market continues to be extremely viable. We would like our members to participate in this success and will therefore propose a stable dividend of four percent to the Annual General Meeting in June. At the same time, we will top up our reserves to make provisions for the future.

Outlook for 2018 and beyond: We will keep our finger on the pulse

The structures in the outpatient and the inpatient sectors will continue to change dramatically, as will our customers' needs. This is confirmed by our latest study "Zukunftsbild Heilberufler 2030" (Vision for the Health Care Profession in 2030). We plan to continue developing our growth strategy based on these findings. In addition, there are plans to further grow the volume of loans and deposits. As well as supporting our customers who want to set up their own practice – a service that we want to extend in future – we will place an emphasis on awakening our customers' interest in our asset management and asset advisory services, which have won numerous awards. With regard to our key accounts in the health care market, we intend to double the number of customers in the next five years and expand our range of products and services. We aim to use our special knowledge to increasingly become a strategic partner for our retail clients.

In our interactions with customers, we will continue to rely on offering a personal service. Supported by modern technology and digital processes, we aim to further develop our consulting services for all customer groups. We will maintain our existing advisory centres and offices while developing new digital services that are tailored to our customers' special needs.

Digitisation is increasingly shaping our lives. It is also changing the banking sector – and the health care market. In the long run, we want to be present wherever the market needs our financial and health care expertise. We will try out new concepts in future and develop new offerings beyond financing and asset management in areas where we can bring our unique knowledge to bear in the best possible way and thus strengthen our role in the future.

The backbone for these activities will be an IT system by a new provider that supports the future development of our business model. The new system will be tailored to our needs as a specialised bank that is at the same time regulated by the ECB, and will therefore meet the special demands arising from our business model. It will allow us to implement new topics flexibly and, if necessary, independently from the Bank's core system. Migration to the new system is planned to take place in 2020. So we have a lot of work ahead of us. In this regard, we can count on our employees' exceptional commitment and team spirit that they have already demonstrated in previous major projects.

What else have we planned for 2018? Nothing less than making the Bank more agile and flexible overall. We will accept all good ideas, from whomever they come, because we intend to place content before hierarchies and encourage open, productive cooperation. Only by doing so can we make progress.

You will find another familiar name on the next few pages: Prof. Dr. med. Frank Ulrich Montgomery took over from Hermann Stefan Keller as Chairman of the Supervisory Board in June 2017. My colleagues on the Board of Directors and I am looking forward to working with Professor Montgomery, who has been a member of the Supervisory Board since 2011, and would like to thank Hermann Stefan Keller sincerely for his 32 years of dedication to the Supervisory Board, including eight as its chairman.

Many challenges await us in 2018. The past, successful business year will provide us with a strong foundation to deal with the many new projects we intend to initiate and tackle this year. In doing so, we have the advantage of being able to benefit from proven approaches and our experience. I would be very happy if you continued to join us on this path.

Yours sincerely

Ulrich Sommer
Chairman of the Board of Directors,
Deutsche Apotheker- und Ärztebank eG

Report of the Supervisory Board

The Supervisory Board of apoBank fulfilled its duties in accordance with the law, the Articles of Association and the internal rules of procedure in 2017. It exercised its supervisory function and adopted all resolutions within its jurisdiction. These included the audit in accordance with Section 53 of the Cooperative Societies Act (GenG). In addition, the Supervisory Board examined the separate non-financial report in accordance with Section 289b of the German Commercial Code (HGB). It was assisted in this by Genossenschaftsverband – Verband der Regionen e.V. (Genossenschaftsverband, previously Rheinisch-Westfälischer Genossenschaftsverband e.V.), which it commissioned with carrying out the review of this report.

The Supervisory Board maintained a constant dialogue with the Board of Directors. The Board of Directors informed the Supervisory Board about significant events regularly, comprehensively and in a timely manner, in both written and oral form. apoBank's economic situation was discussed, as well as the net assets, financial position and results, the risk situation and other special events. The Supervisory Board gained an insight into the Bank's current state of affairs at its four regular meetings and discussed details at the meetings of the Nomination and Presiding Committee, the Personnel Committee, the Remuneration Control Committee, and the Audit, Loan and Risk Committee, which was split into the Loan and Risk Committee and the Audit Committee in June 2017. The full Supervisory Board received comprehensive reports from the meetings of the respective committees. In addition, the Board of Directors reported to the Supervisory Board on an ongoing basis regarding organisational adjustments and changes and provided information about the impact of these on employees and about the cooperation with co-determination bodies. The Chairman of the Supervisory Board also engaged in an intensive dialogue with the Board of Directors outside of these meetings, and briefed the members of the Supervisory Board on the content in the following meeting of the Supervisory Board at the latest.

Further training measures for the Supervisory Board in 2017 focused on the topics of risk controlling, specifically risk management models for banks. Another emphasis was on controlling the treasury in the current environment of regulations and low interest rates. As in the previous years, training was provided by apoBank staff at senior management level as well as external experts. In addition, the members of the Supervisory Board who were newly elected in 2017 successfully completed their introductory training in the areas of financial and fundamental knowledge as well as the rights and duties of the Supervisory Board.

Due to its knowledge and experience, the Supervisory Board as a whole has sufficient industry and specialist know-how and expertise in the areas of accounting and auditing of annual financial statements. The Supervisory Board reviewed these requirements as part of its self-assessment. No conflicts of interest were identified. As a result, it complies with the legal requirements.

As part of the supervisory review and evaluation process (SREP), the joint supervisory team of the European Central Bank (ECB) and the national supervisory authorities again carried out a survey of selected Supervisory Board members in the year under review. This supervisory inspection and monitoring procedure lays down evaluation criteria for banks directly overseen by the ECB including the banks' capital resources and liquidity as well as their business model and governance.

As part of the statutory audit in accordance with Section 53 GenG, the Genossenschaftsverband also carried out the audit of the annual financial statements and management report for the 2017 financial year. The results of this audit will be reported on in the Annual General Meeting. The Supervisory Board is supported by the Audit Committee in monitoring the audit. The Audit Committee together with the Genossenschaftsverband determined the key points of the audit in 2017. The Genossenschaftsverband confirmed the objectivity of the employees involved in the audit to the Supervisory Board.

According to the unreserved opinion of the Genossenschaftsverband, the annual financial statements and the management report correspond to the law and the Articles of Association. The Supervisory Board received and critically examined the report on the legal audit. At its joint session with the Board of Directors and the auditors, the Supervisory Board acknowledged the results of the audit and scrutinised the statements made in the auditing report.

The Supervisory Board concluded that the annual financial statements were prepared and audited correctly and therefore contribute towards correct accounting. It examined and verified the annual financial statements, the management report and the Board of Directors' proposal on the allocation of net profit. The Supervisory Board recommends that the Annual General Meeting approve the financial statements as at 31 December 2017 and adopt the proposed appropriation of net profit.

Herbert Pfennig, Chairman of the Board of Directors, retired on 31 August 2017. Ulrich Sommer was appointed Chairman of the Board of Directors of apoBank with effect from 1 September 2017. Dr. Thomas Siekmann was appointed Deputy Chairman of the Board of Directors with effect from 1 September 2017.

The following changes to the composition of the Supervisory Board took place: Ute Szameitat stepped down from the Supervisory Board with effect from 28 February 2017. She was succeeded by Steffen Kalkbrenner by judicial decree from 30 March 2017. Hermann Stefan Keller resigned his seat on the Supervisory Board at the end of the Annual General Meeting on 30 June 2017. As a member of the Supervisory Board, he had accompanied apoBank with his extensive expertise in the political environment for health care professionals since 1985. He had held the position of Chairman of the Supervisory Board since 2009 and was always a reliable and trusting partner to the Board of Directors thanks to his great commitment. Susanne Wegner was elected as his successor on the Supervisory Board by the Annual General Meeting. Fritz Becker, Dr. med. Andreas Gassen and Dr. med. dent. Peter Engel were re-elected. Following this, the Supervisory Board nominated Prof. Dr. med. Frank Ulrich Montgomery to the office of Chairman of the Supervisory Board at its constitutive meeting.

At the end of this year's Annual General Meeting, the shareholder representatives Dr. med. dent. Helmut Pfeffer, Prof. Dr. med. Frank Ulrich Montgomery und Susanne Wegner will leave the Supervisory Board. They may stand for re-election.

In its meeting on 31 March 2017, the Supervisory Board decided to replace the Audit, Loan and Risk Committee with an Audit Committee on the one hand and a Loan and Risk Committee on the other with effect from 30 June 2017. The ECB was informed about the separation of the Audit, Loan and Risk Committee in a letter from the Chairman of the Supervisory Board. It had strongly recommended a separation of the Risk Committee from the Audit Committee in its SREP report dated 25 November 2016. The two committees met separately for the first time on 6 September 2017.

Last year, an important milestone was achieved for the digital future of apoBank. After considering all strategic, qualitative and risk aspects, the Board of Directors and the Supervisory Board decided to choose Avaloq and DXC technology as future IT partners on 29 September 2017. Avaloq and DXC offer a customized IT landscape that meets apoBank's unique requirements. Furthermore, the new IT system will enable apoBank to implement new topics flexibly and as needed, independently of its core system, and expand its focus on the health care market. Migration to the new IT system is expected to take place in 2020. The decision by the Board of Directors and the Supervisory Board does not mean a rejection of the cooperative FinanzGruppe – apoBank is expressly committed to its remaining a member of the Verbund.

In the year under review, apoBank continued to fulfil its purpose of providing financial support to health care professionals as outlined in its Articles of Association. This was once again reflected in the impressive growth in the number of members and customers and the Bank's strong market position in providing start-up financing for health care professionals. Based on the net profit generated in 2017, apoBank will propose the payment of a dividend to its members at the Annual General Meeting.

The banking and finance industry continues to face substantial challenges in a period of sustained low interest rates and numerous regulatory requirements. The Basel III reform package will have an impact, among others. This will considerably reduce the possibilities of capital relief in applying internal ratings in future, with a long-term negative impact on capital rates. In addition, digitisation is changing our society, resulting not least in new requirements for banks. apoBank is working hard to address these developments in order to meet the demands placed on a digital bank with a focus on the health care market.

The Supervisory Board is convinced that apoBank's business model provides a solid basis to satisfy future requirements. The Bank remains in a good position to focus on the needs of players in the health care sector and expand its economic support for them.

The Supervisory Board would like to thank the members of the Board of Directors and the entire workforce of apoBank for their good work, their trusting cooperation and their considerable personal commitment in 2017.

Dusseldorf, 13 April 2018

F. U. Montgomery

Prof. Dr. med. Frank Ulrich Montgomery
on behalf of the Supervisory Board

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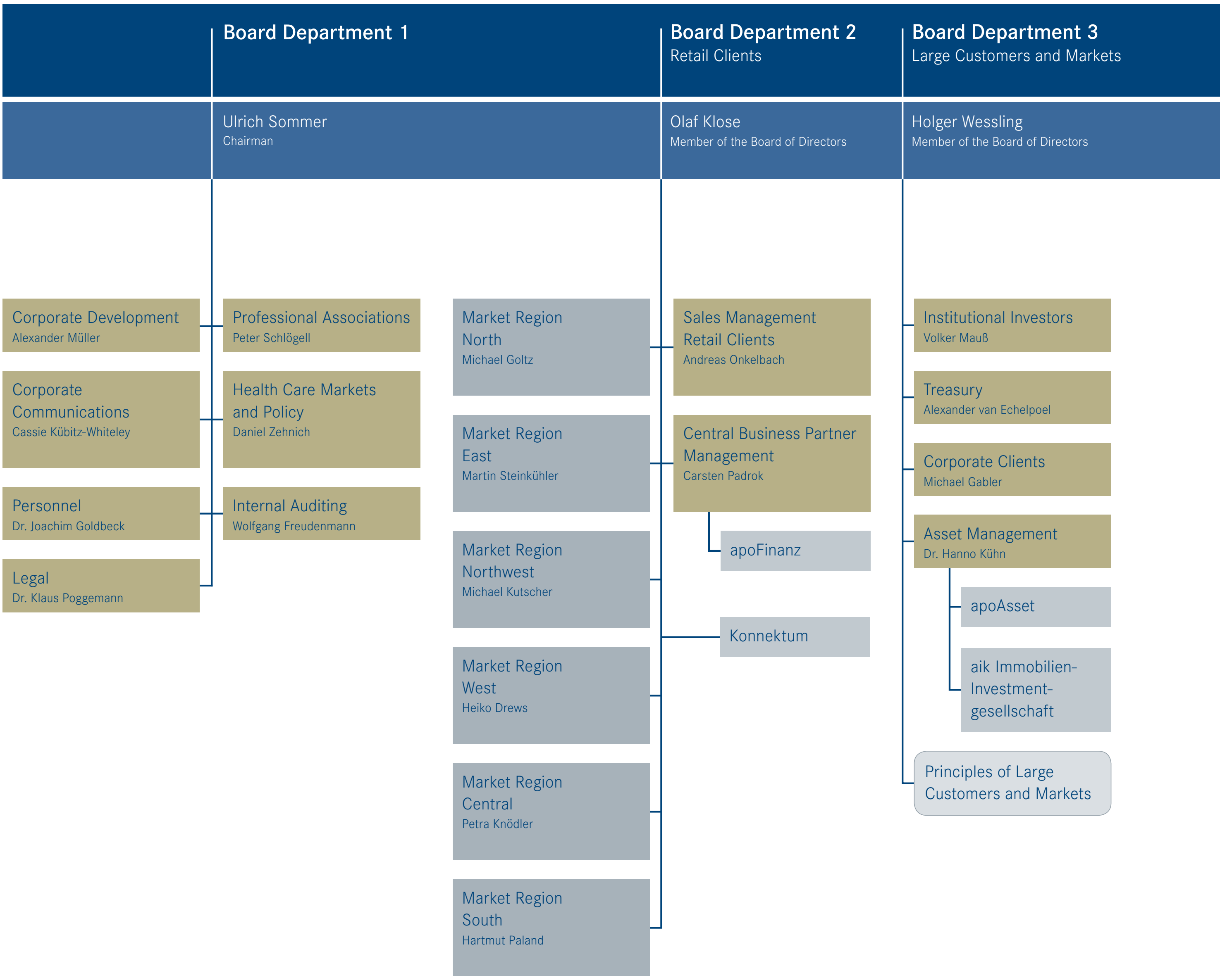
About apoBank

Board Departments

Organisational chart of Deutsche Apotheker- und Ärztebank eG



Board department | Divisional Director | Division | Market regions/Loan management | Unit reporting directly to the Board of Directors

1) Until January 2021.

Board Department 4
Finance and Controlling

Dr. Thomas Siekmann
Deputy Chairman of the Board of Directors

- Overall Bank Controlling – Dr. Andree Engelmann
- Finance – Steffen Kalkbrenner
- Risk Controlling – Michael Kaiser
- Compliance – Matthias Schmedt auf der Günne
- Organisation – Dr. Christian Wiermann

Board Department 5
Loans and Banking Operations

Eckhard Lüdering
Member of the Board of Directors

- Regional Loan Management Hanover – Andreas Leinz
- Regional Loan Management Dresden – Grit Leschinski
- Regional Loan Management Dusseldorf – Paul Krüger
- Regional Loan Management Frankfurt – Uwe Paul (temporary)
- Regional Loan Management Munich – Uwe Paul
- Loan Management Retail Clients – Heribert Vossen (temporary)
- Loan Management Corporate Clients and Proprietary Investments – Heribert Vossen
- Service and Transaction Bank – Klaus Söhler, Martin Pietsch
  - apoData
- Facility Management – Roland Winter

IT and Securities Services
Philippe De Geyter
Divisional Director

- Trading Operations – Wolfgang Pauen
- Information Technology – André Thomas
- IT Migration Project[1] – Lutz Schirrmacher
- IT Services – André Thomas

Subsidiary

as at April 2018

Board of Directors

Olaf Klose Dr. Thomas Siekmann Ulrich Sommer Eckhard Lüdering Holger Wessling

Ulrich Sommer
Chairman of the Board of Directors

Dr. Thomas Siekmann
Deputy Chairman of the Board of Directors

Olaf Klose
Member of the Board of Directors

Eckhard Lüdering
Member of the Board of Directors

Holger Wessling
Member of the Board of Directors

Supervisory Board

Prof. Dr. med. Frank Ulrich Montgomery
Chairman (since 30 June 2017)
Hamburg

Wolfgang Häck[1]
Deputy Chairman
Dormagen

Hermann S. Keller, pharmacist (until 30 June 2017)
Chairman
Mainz

Ralf Baumann[1]
Langenfeld

Fritz Becker, pharmacist
Remchingen

Marcus Bodden[1]
Kamp-Lintfort

Martina Burkard[1]
Würzburg

Mechthild Coordt[1]
Berlin

Dr. med. dent. Peter Engel
Bergisch-Gladbach

Sven Franke[1]
Hanover

Dr. med. Andreas Gassen
Berlin

Dr. med. Torsten Hemker
Hamburg

Steffen Kalkbrenner[2] **(since 30 March 2017)**
Dusseldorf

WP/StB Walter Kollbach
Bonn

Dr. med. dent. Helmut Pfeffer
Wohltorf

Robert Piasta[1]
Niederkassel

Dr. med. dent. Karl-Georg Pochhammer
Berlin

Christian Scherer[1]
Deidesheim

Friedemann Schmidt, pharmacist
Leipzig

Ute Szameitat[1] **(until 28 February 2017)**
Mülheim

Susanne Wegner (since 30 June 2017)
Obertshausen

Björn Wißuwa[1]
Unna

1) Employee representative.

2) By judicial decree.

Advisory Board

Dipl.-Betriebsw. Wolfgang Abeln, Peetsch

Stephan Allroggen, dentist, Kassel

Dipl.-Kfm. Peter Asché, Würselen

Dr./RO Eric Banthien, Hamburg

Mark Barjenbruch, Hanover

Dr. med. Andreas Bartels, Mainz

Dr. rer. nat. Stephanie Bauer, Berlin

Dipl.-Vw. Georg Baum, Berlin

Kai Becker, Hamburg

Dr. med. dent. Gert Beger, Bad Kreuznach

Thomas Benkert, pharmacist, Munich

Prof. Dr. Dr. med. dent. Christoph Benz, Munich

Christian Berger, dentist, Kempten

Dr. med. Frank Bergmann, Roetgen

Dr. med. Jörg Berling, Adendorf

Dr. med. Matthias Berndt, Hanover

Dipl.-Vw. Christoph Besters, Waldkirch

Dr. rer. nat. Rainer Bienfait, pharmacist, Berlin

Ulrich Böger, Dachau

Dr. rer. nat. Roswitha Borchert-Bremer, Bad Schwartau

Markus Büssing, dentist, Gladbeck

Frank Dastych, Bad Arolsen

Reinhard Dehlinger, Munich

Florian Diel, Munich

Dr. med. dent. Michael Diercks, Kronshagen

Dipl.-Stom. Holger Donath, Prebberede

Dr. oec. publ. Walter Donhauser, Feldafing

Dr. med. Wolfgang-Axel Dryden, Kamen

Dipl.-Kfm. Armin Ehl, Berlin

Prof. Dr. med. Axel Ekkernkamp, Heidesee

Dr. med. Brigitte Ende, Buseck

Dr. rer. nat. Ralph Ennenbach, Ahrensburg

Dr. med. dent. Wolfgang Eßer, Mönchengladbach

Dr. med. Johannes Fechner, Emmendingen

Ass. Jur. Christian Finster, Bad Schönborn

Bernd Franken, Dusseldorf

Christiaan Johannes Gabrielse, veterinarian, Dinslaken

Prof. Dr. med. Ferdinand M. Gerlach, Marburg

Meike Gorski-Goebel, Dresden

Dr. rer. nat. Doerte Grahlmann, pharmacist, Neu Kaliß-Heiddorf

Dr. med. vet. Karl-Ernst Grau, Sendenhorst

Dr. phil. Jörn Graue, pharmacist, Hamburg

Dr. med. Christiane Groß, Wuppertal

Dr. med. Holger Grüning, Wernigerode

Dr. med. dent. Jürgen Hadenfeldt, Bovenden

Dipl.-Stom. Dieter Hanisch, Freyburg

RA Peter Hartmann, Berlin

SR Dr. med. Gunter Hauptmann, Saarbrücken

Dr. med. Klaus Heckemann, Dresden

Dr. med. Dirk Heinrich, Hamburg

Dr. med. Peter Heinz, Ober-Hilbersheim

SR Dr. med. dent. Ulrich Hell, Schiffweiler

Dipl. rer. pol. Hanno Helmker, Bremen

Martin Hendges, dentist, Untereschbach

MdB Rudolf Henke, Aachen

Dr. med. Jörg Hermann, Bremen

Ralf-Matthias Heyder, Teltow

Andreas Hilder, Steinfurt

Dr. rer. nat. Reinhard Hoferichter, pharmacist, Limburg

Dr. med. Stephan Hofmeister, Berlin

Dipl.-Kfm. Wilfried Hollmann, Münster

Dr. med. dent. Jörg-Peter Husemann, Berlin

Dr. med. Klaus-Ludwig Jahn, Loxstedt

Stephan Janko, Langenfeld

Dr. med. Burkhard John, Schönebeck

Oliver Kahl, Schwerin

Dr. med. Max Kaplan, Pfaffenhausen

Dr. rer. nat. Andreas Kiefer, pharmacist, Koblenz

Dr. med. Carsten Dieter König, Dusseldorf

Dr. med. dent. Alfons Kreissl, Adendorf

Dr. rer. pol. Andreas Kretschmer, Dusseldorf

Dr. rer. soc. Thomas Kriedel, Dortmund

Dr. med. dent. Manfred Krohn, Rostock

Dr. med. Wolfgang Krombholz, Isen

Dr. med. Sylvia Krug, Leipzig

Andreas Kruschwitz, dentist, Bonn

Dr. Michael P. Kuck, Essen

Dipl.-Math. Udo Kühle, Neuss

Dr. rer. pol. Herbert Lang, Germering

Dipl.-Kfm. Wolfgang Leischner, Lübeck

RA Florian Lemor, Berlin

Dr. med. dent. Gunnar Letzner, Schwerin

Dr. med. Steffen Liebscher, Lößnitz

Rainer Linke, Kleinmachnow

Volker Linss, veterinarian, Villmar-Aumenau

Dipl.-Kfm. Thomas Löhning, Dusseldorf

Dr. med. dent. Ute Maier, Dußlingen

Helmut Mälzer, Berlin

Dr. med. dent. Peter Matovinovic, Kaiserslautern

Dipl.-Vw. Eberhard Mehl, Cologne

Johannes M. Metzger, pharmacist, Scheinfeld

WP/StB Tobias Meyer, Hanover

Dr. med. Josef Mischo, St. Ingbert

Karl-Heinz Müller, Lage

Lutz Müller, Lehrte

Thomas Müller, Münster

MPH Dr. med. Markus Müschenich, Berlin

Dipl.-Math. Gert Nagel, Darmstadt

Dr. med. Katharina Nebel, Vlotho

Christian Neubarth, dentist, Hildesheim

MUDr. Peter Noack, Cottbus

Dr. med. dent. Hans-Jürgen Nonnweiler, Kassel

Dr. med. Gerhard Nordmann, Unna

Tobias Nowoczyn, Berlin

Prof. Dr. med. dent. Dietmar Oesterreich, Schwerin

Dipl.-Kfm. Siegfried Pahl, Erkrath

Dr. med. dent. Klaus-Dieter Panzner, Bad Berka

Walter Plassmann, Jersbek

Thomas Preis, pharmacist, Dusseldorf

Axel Rambow, Schwerin

Dr. med. Klaus Reinhardt, Bielefeld

RA Martin Reiss, Berlin

Dr. med. dent. Ingo Rellermeier, Berlin

Dr. med. Claudia Ritter-Rupp, Munich

Dr. med. Bernhard Rochell, Berlin

Dr. med. Annette Rommel, Mechterstädt

Dr. med. Karl-Friedrich Rommel, Mechterstädt

RA Dr. jur. Helmut Roth, Senden

Dr. med. Jochen-Michael Schäfer, Kiel

Freiherr Dr. med. Titus Schenck zu Schweinsberg, Schweinsberg

Günter Scherer, Bremen

Dr. med. Dipl. Oec. med. Monika Schliffke, Ratzeburg

Dr. med. Pedro Schmelz, Bad Kissingen

Dr. med. dent. Jochen Schmidt, Dessau-Roßlau

Joachim M. Schmitt, Berlin

Dr. jur. Sebastian Schmitz, Mainz

Dr. med. Rüdiger Schneider, Trier

Dr. med. dent. Ursula von Schönberg, Barntrup

Dr. med. dent. Rüdiger Schott, Sparneck

Harald Schrader, dentist, Schwarzenbek

Dr. med. Thomas Schröter, Weimar

Dipl.-Med. Andreas Schwark, Bernau

Dr. med. dent. Holger Seib, Iserlohn

Dirck Smolka, dentist, Bonn

Dr. Hermann Sommer, Starnberg

RA Harald Spiegel, Bad Segeberg

Dr. med. Eckhard Starke, Frankfurt

Dr. med. Eberhard Steglich, Nuthetal

Dipl.-Vw. Helmut Steinmetz, Kiel

Dr. med. Margret Stennes, Berlin

RA Dipl.-Betriebsw. Joachim Stöbener, Hauenstein

Martin Sztraka, dentist, Bremen

Dr. med. vet. Uwe Tiedemann, Lüneburg

Stefan Tilgner, Kleinmachnow

Dr. med. Christoph Titz, Ganderkesee

Dr.-Ing. Thomas Trümper, Fischingen

Dipl.-Ing. Ernst Uhing, Lüdenscheid

Dr. med. dent. Reinhard Urbach, Wolfsburg

Dr. med. Peter Velling, Berlin

Dr. Claudia Vogt, pharmacist, Cologne

Dr. med. vet. Guntram Wagner, Kratzeburg

Ralf Wagner, dentist, Heimbach

Dr. med. Veit Wambach, Nürnberg

Ulrich Weigeldt, Bremen

Dr. phil. nat. Martin Weiser, pharmacist, Bonn

Dr. med. dent. Holger Weißig, Gaußig

Dr. med. Lothar Wittek, Moosthenning

Dr. med. dent. Walter Wöhlk, Molfsee

Ralf Wohltmann, Berlin

Dipl.-Oec. Oliver Woitke, Bremen

Jürgen Ziehl, dentist, Neunkirchen

Honorary Position Holders and Honorary Members

Hermann S. Keller, pharmacist
Honorary Chairman of the Supervisory Board,
Bearer of apoBank's Karl Winter Medal
and honorary member of apoBank
Mainz

Dr. med. dent. Wilhelm Osing
Honorary Chairman of the Supervisory Board
Dusseldorf

Klaus Stürzbecher, pharmacist
Bearer of apoBank's Karl Winter Medal
and honorary member of apoBank
Berlin

Berthold Bisping
Honorary member of apoBank
Neuss

Dr. med. dent. Wolfgang Eßer
Honorary member of apoBank
Mönchengladbach

Elfriede Girl
Honorary member of apoBank
Munich

Jürgen Helf
Honorary member of apoBank
Meerbusch

Dr. med. Ulrich Oesingmann
Honorary member of apoBank
Dortmund

Dipl.-Betriebswirt Werner Wimmer
Honorary member of apoBank
Meerbusch

Our business model

We are the only bank specialised in health care professionals, their organisations and companies in the health care market. We are the market leader in this field. Our customers include

- students of pharmaceutics, medicine, dentistry and veterinary medicine, as well as future psychological psychotherapists,
- self-employed and salaried academic health care professionals,
- professional organisations and associations,
- companies in the health care market,
- institutional investors,
- inpatient and outpatient care structures.

Our philosophy

We deliver services that meet the high standards in the health care market, and thereby contribute to health care provision in Germany. Everything we do is based on our sense of responsibility and sound values. This is also reflected in our commitment to society and social values and in the activities of our apoBank Foundation.

„Because there is more that

Our network

As a bank specialised in the health care market, we not only work with our customers and members, but also traditionally with their professional organisations and associations. In addition, we cultivate good relations and an open dialogue with other important players in the health care market. In this way, we help to promote important topics in the interest of our customers and members.

Our self-image

As a cooperative bank, we are guided by the principle “By health care professionals for health care professionals”. Our members are also owners of the Bank and participate in our business success. At the end of 2017, well over 110,000 apoBank customers were also members of the bank.

Our services

We support our customers with specialised banking services and individual advice on all financial matters. We guarantee payment transactions in the health care industry. At the same time, we are the market leader in providing financing for health care professionals who want to set up their own business. Our asset management and investment consulting have received numerous awards. We also have special financial services in our portfolio for professional organisations, corporate clients and pension funds.

connects us“

Our knowledge

We know the health care market and our customers like no other bank. That is why we are able to accompany our clients as a competent partner in an environment that is constantly changing. We pass on our knowledge in various ways, for example through specialist research and apps. The range of seminars offered by apoBank is the most comprehensive on the German health care market.

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Management Report

Fundamental Features of the Bank

Business model

apobank – the leading bank in the health care sector

apoBank is a cooperative full-service bank. Its business policy is geared towards the specific needs of the medical professions and the health care market. As a cooperative, the business purpose of apoBank is to support and promote the economic development of its members – specifically, health care professionals as well as their organisations and institutions. The fair participation of our members in the Bank's economic success over the long term is therefore central to our goals.

We position ourselves as providers of high-quality banking services in the health care market. As specialists and niche suppliers, we enjoy a strong position in our target market. This way, we assure the leading position of the cooperative FinanzGruppe in the market for financial services geared to the health care sector.

Aligned to growing health care market

apoBank's business model is aimed at sustainably utilising opportunities on the thriving health care market. In accordance with our statutory purpose, we serve as a reliable financing partner, helping to meet the growing demand for investment in the health care sector.

Our customers are academic health care professionals in training, employment or retirement, professional associations, different forms of cooperation and companies in the health care sector. We also support operators of pharmaceutical, medical, dental, inpatient and nursing care structures as well as members of other professional groups in the sector. We provide them with a wide range of financial and consulting services in the lending, deposit and investment business as well as in asset management.

Supporting customers in two business segments

Business with our key customers is divided into the two business segments Retail Clients as well as Professional Associations and Large Customers.

In the Retail Clients business segment, we support students in health care as well as salaried, self-employed and retired academic health care professionals in their professional and private projects. Following our apoPur integrated advisory concept, we support our customers based on their individual needs and the various phases of their lives. We intend to continue strengthening our business with self-employed health care professionals while simultaneously driving the expansion of our product range and consulting services for salaried health care professionals and students. Our private banking products and services are geared towards wealthy medical care professionals, rounding off our strategic orientation in this business segment.

In the Professional Associations and Large Customers business segment, we support professional associations and institutional organisations as well as companies and medical care structures in the health care market. We also offer tailor-made solutions for institutional clients along the entire institutional capital investment value chain. We want to strengthen our market position with professional associations and large customers by taking a systematic sales approach and utilising cross-selling potential. Our unique network in the health care market is key in achieving this.

Strategy and goals

The trusted bank for health care professionals

It is both our vision and our mission to be the trusted bank of the health care professions, based on clear principles and sustainable growth in the health care market. Being a trusted bank means putting the interests of our customers first. Therefore, our strategy is aligned to meet the special requirements of our customers in the health care market.

When implementing our strategy, we focus on customer orientation and growth, efficiency and digitisation. We use a high-performing IT system as well as state-of-the-art work methods for this purpose. We want to maintain and further expand our strong position as a financial services provider in the German health care market. For this reason, we are investing in our customer business, our performance quality and our IT system. The implementation of our growth strategy is accompanied by strict cost management and the continuous optimisation of processes. We use new digital solutions in order to fulfil customer needs and to further improve our efficiency.

Growth in the core business

Our expertise with regard to health care start-ups is one of our unique selling propositions that sets us apart from other banks. Our mission is to continue to expand our leading position in the market for business start-up financing. To achieve this, we will extend our value chain in the area of start-up advisory services.

As we continue to strengthen our core business with self-employed health care professionals, we are at the same time stepping up the expansion of our market position with the other customer groups in the retail clients business.

In addition, we intend to continue growing in the investment business and in asset management for retail clients and institutional investors. We will intensify our sales activities with the aim of significantly increasing the deposit volume, particularly in the Retail Clients segment. At the same time, we will align our investment and asset advisory services even more closely to customer needs. For this purpose, we will apply our own knowledge and the expertise of our associated companies Apo Asset Management GmbH and aik Immobilien-Investmentgesellschaft mbH. Apo Asset Management GmbH specialises in the administration and management of securities funds for private and institutional customers from the health care sector. aik Immobilien-Investmentgesellschaft mbH supports occupational pension funds and pension plans. As a real estate investment company, it pursues an integrated approach that covers all stages of the real estate investment value chain.

We also want to continue expanding in our corporate clients business. The concentration processes in the health care market offer us opportunities for new business approaches. Therefore, we are intensifying our approach to corporate clients and drawing on our specialised knowledge of customers and markets to expand our market position here. We act as strategic partners for the providers of outpatient and inpatient care as well as for companies in the health care market, such as those in the pharmacy wholesale and dental trade as well as in the pharmaceutical and medical technology industries. Our goal is to further expand our range of products and services and to significantly increase our loan volume, especially with medium-sized companies in the health care market.

Cost optimisation through improved efficiency

In order to safeguard our bank's long-term success, we optimise our cost structure on an ongoing basis. We achieve long-term increases in efficiency by continuously improving processes. In the year under review, we started a project with the objective of speeding up our loan approval process and making it more digital.

At the same time, we want to create room for manoeuvre for increasingly complex business activities, for example in the area of medical care structures. We align the organisational structure and infrastructure of the Bank according to the revised processes. This ensures that resources are utilised efficiently and allows us to manage them based on requirements.

Using the opportunities of digitisation

The health care and the banking markets are changing rapidly with the advance of digitisation. We are keeping pace with this by pushing forward with cultural changes that make us a more agile, self-learning organisation. This involves fast decision-making as well as non-hierarchical teamwork and flexible structures.

We see digitisation as an opportunity to refine our business model, gearing it even more effectively to customer needs. For this reason, we are expanding the options for our customers to access the Bank and utilising the possibilities of digital media. We also expect new impetus from the migration to a new IT system, which is to take place in 2020.

Management system

The management of apoBank is based on the annual strategy process, during which the strategic targets and target levels are set for a period of five years. The targets are operationalised in the medium-term planning. This in turn forms the basis for operational business planning for the subsequent financial year.

The management system of the Bank covers the four balanced score card dimensions: customers, finances, processes and employees. The dimension of finances covers the management of profitability, regulatory and economic capital utilisation as well as liquidity. The primary goal of management is to secure sustainable profitability, a minimum profit as well as the risk-bearing capacity.

The following key indicators are embedded in the Bank-wide finance dimension:

- Profitability:
  - Value contribution: This is the result of the periodic calculation of the contribution margin, which is derived from the Bank's net interest income and net commission income less all personnel and operating expenses as well as risk and/or capital costs. The value contribution is determined for the Bank as a whole and assigned to the Bank's business segments via a transfer price system as well as other methods.
  - Operating profit before risk provisioning: Here, the net balance is calculated for the items of net interest income and net commission income, general administrative expenses, net income from financial transactions and other operating income.
  - Cost-income ratio: This refers to the ratio of operating costs to operating income.
  - Risk provisioning with reserve character and allocations to reserves: This primarily consists of allocations to the fund for general banking risks, provisioning reserves and other reserves.
- Solvency: Common equity tier 1 capital ratio, equity ratio
- Liquidity: Liquidity coverage ratio; here, highly liquid assets are placed in relation to cash outflows less cash inflows.
- Risk-bearing capacity: Utilisation of risk-bearing capacity; this is derived from the ratio of the risk pool (made up of retained earnings and cooperatives' shares) to the economic risks.

Additional key indicators, particularly regulatory indicators, are also taken into account, such as the leverage ratio or the MREL ratio (minimum requirement for own funds and eligible liabilities).

Apart from the key financial indicators, non-financial performance indicators are also implemented in the management system in the other three balanced score card dimensions of customers, processes and employees. These are also derived from the Bank's strategy and refer in particular to customer satisfaction, the efficiency of specific processes as well as employee satisfaction. All key indicators are made available to the organisational units of the Bank, primarily as part of a monthly reporting cycle specific to each function. Intra-year management processes ensure that monitoring is ongoing.

Equal opportunities for men and women

Promotion of equal opportunities for men and women

We wish to offer our employees with their various abilities and talents a working environment that makes them feel valued and is free of prejudice. Gender roles still affect important personal decisions with regard to career paths, the organisation of working hours, families and parenthood. For apoBank, reconciling work and family life is a core goal: Thanks to our needs-based, practical options, both female and male employees at the Bank are able to find a good balance between their work and family obligations. A family service is available to support employees who require childcare. Additionally, apoBank offers employees places at a childcare facility at its branch in Dusseldorf. The family service also helps employees support family members in need of care. Due to our mobile work and flexible work time models, apoBank enables both men and women to organise their work in alignment with the needs of their individual life stage.

Since 2008, we have been participating in "audit beruf-undfamilie", an audit which examines to what degree our personnel policy takes into account family needs, and have continued to set ourselves new goals to ensure that our employees maintain a healthy work-life balance. In 2017, we received the certificate for another three years.

We actively and purposefully promote our female and male employees in their professional and personal development. With our state-of-the-art learning management system apoCampus, all employees can learn independently of place and time. The offering is specifically tailored to each function. Additionally, we offer seminars for women on defining where they are at professionally and on career planning. We include male and female apprentices with potential in our Career Pool, and support them in their career development by means of our programme for junior executives.

Increasing the proportion of women in management defined as a strategic objective

We view diversity as an opportunity and also take this into account when filling management positions. Promoting women to management is a matter of course for us and increasing the proportion of women in management has been defined as a strategic objective. The Board of Directors has established targets staggered over time for the proportion of women in the top two management levels:

Targets for the proportion of women in the top management levels of apoBank

Deadline to reach the target	Proportion of women 1st management level	Proportion of women 2nd management level
By 30 June 2017	15%	20%
By 30 June 2022	20%	25%
By 30 June 2027	25%	30%

The first management level includes the division managers at head office, the market region managers and the regional loan managers. The second management level encompasses the department managers at head office and in the regional loan management units, the regional branch managers and the regional managers of Sales Partner Liaison and Support and Private Banking.

The share of women as at 31 December 2017 was 13% on the first management level and 19% on the second level. The Bank will step up its measures in order to achieve the defined targets. These measures range from specially tailored workshops, to training programmes, right through to individual coaching and mentoring programmes.

The share of women in the Supervisory Board of apoBank amounts to 15%; this also corresponds to the target. On the Board of Directors, the current share is in line with the target. To date, there are no women on the Board of Directors.

Measures aiming to achieve equal pay for women and men

apoBank provides a transparent description of its remuneration system and remuneration principles in its internal organisation guidelines. This document is available internally to the employees. Furthermore, apoBank publishes a publicly accessible remuneration report with qualitative and quantitative data on remuneration (disclosure in accordance with article 450 of the European Union Regulation No. 575/2013 in combination with Section 16 Institutsvergütungsverordnung – Remuneration Ordinance for Institutions).

Equal pay for women and men is based on collective bargaining regulations. apoBank is subject to the regulations on collective agreements for the German cooperative banks and cooperative central banks.

Fixed remuneration

The fixed remuneration for the employees depends in particular on the stipulations of the general wages agreement contract and the collective agreement on remuneration. The employees are classified in wage groups according to the tasks they perform, without gender-specific differentiation.

Non-tariff remuneration is also determined according to function. As a regulatory framework, apoBank has been using a criteria-based system for the evaluation of non-tariff jobs and corresponding salary brackets since 2016. The system to be used for non-tariff job evaluation including the non-tariff salary brackets has been agreed with the employee representatives and laid down in collective agreements. None of the criteria relevant for the evaluation allows for a gender-specific differentiation.

Variable remuneration

The variable remuneration of an employee depends on the provisions of the collective agreements with the employee representatives. It takes criteria such as the employee’s function and individual performance into consideration. The assessment of work performance is also subject to the provisions set out in collective agreements. In no system is a gender-specific differentiation envisaged as part of the assessment bases.

Information pursuant to Section 21 (2) of the German Remuneration Transparency Act

	2017	2016
Average number of employees during the year[1]	2,563	2,589
of which male	1,290	1,277
of which female	1,272	1,312
Average number of full-time employees[1]	2,111	2,142
of which male	1,257	1,246
of which female	854	897
Average number of part-time employees[1]	452	447
of which male	34	31
of which female	418	415

1) Deviations due to rounding differences.

Economic report

Overall economic and industry-specific conditions

Dynamism of global economy increases significantly

After a weak phase, the global economy showed considerably stronger growth again in 2017. The economic upswing accelerated in all regions. Large developing countries in particular found their way back onto the growth track: Russia and Brazil, for example, left the recessions of the past two years behind them, partly due to the gradual recovery of commodity prices. In China, the economic dynamism remained stable, even though the growth rate was lower than the average over the past two decades. In both Europe and the USA, as in the previous years, the expansive monetary policy supported growth. According to estimations of the International Monetary Fund, global price-adjusted gross domestic product growth in 2017 was at 3.7%, after 3.2% in the previous year. Together with the economic recovery, there was a significant expansion in global trade of around 4.7% in 2017, an increase of 2.2 percentage points compared to the previous year.

In 2017, the US economy grew by more than 2% allowing for price adjustment, which is even more dynamic than in 2016. Particularly in the second half of the year, growth picked up again. Thus, the US economic situation remained largely unaffected by the political uncertainties in the first year of Donald Trump's presidency. Despite the continued expansive monetary policy of the US Federal Reserve and a job market on the verge of full employment (with an average unemployment rate for the year of 4.4%), inflation triggers did not materialise.

GDP in the countries of the euro area developed positively in 2017. With growth estimated at 2.4%, it is likely to be higher than anticipated at the beginning of the year. Almost all countries were included in this upswing. Even countries such as Italy or France, which had experienced comparatively weak growth in recent years, recorded significant increases, supported by the highly expansive monetary policy of the European Central Bank. The continuation of the growth trend, in particular in the countries that had experienced a considerable economic slowdown in the crisis years after 2008/2009, had a stabilising effect on the entire currency area.

In 2017, the German economy continued along its growth path of recent years: In the eighth year of the current economic cycle, GDP again rose more than in the previous year, by 2.2%. Because exports account for a high proportion of their revenues, German companies profited from the world-wide economic recovery and particularly from the strong upswing in the euro area. Employment, which had already been very high in 2016, continued to increase: The unemployment rate, which was at an average of 5.7% for the year, dropped to 5.3% at the end of the year – the lowest level since reunification.

GDP growth in % compared to the previous year

	2017 (expected) %	2016 %
Germany	2.2	1.9
Euro area	2.4	1.8
USA	2.3	1.5
Emerging markets	4.7	4.4
World economy	3.7	3.2

Sources: Federal Statistical Office, IMF

Monetary policy of the euro area and the USA drift further apart

Despite the fact that the rates of inflation have recently increased slightly in the euro area and despite the significant economic upswing, the European Central Bank (ECB) continued its expansive monetary policy. The ECB extended its bond purchase programme twice in 2017; initially, until December 2017 and then again in October until at least September 2018, although in each case with reduced volumes. In the USA, the Federal Reserve continued to tighten its monetary policy by raising the key interest range by 0.75 points in the course of the year, to 1.25% to 1.5%. Thus, the gap between the euro area and the USA continued to grow with regard to short-term interest rates. In addition, the US Federal Reserve gradually began in autumn to reduce its balance sheet total, which it had increased by purchasing bonds.

Neither the long-term net yields on government bonds nor the euro-to-dollar exchange rate appeared to be affected by the difference in the key interest rates. The 10-year net yields on German Federal bonds rose to just over 0.4% by the end of the period and the average for the year was significantly higher than in the previous year. An intermediate rise in net yields on bonds of the Federal Republic to up to 0.6% was the result of a temporary expectation by the market that the ECB might tighten its monetary policy more quickly. The net yields on 10-year US bonds remained immune to three key interest rate increases and thus did not rise. Accordingly, the gap between the key interest rates and the long-term net yields on US government bonds became noticeably narrower. Despite the growing interest rate difference between the USA and the euro area, the euro appreciated by a significant 14%. This was driven among other factors by the economic situation, which was more favourable than expected, and the diminished political risks after the elections in the Netherlands and France.

At stock exchanges worldwide, the share indices rose substantially, propelled by positive real economic performance and based on optimistic estimates for further economic development. The German benchmark index, DAX, increased by 11.4% over the year, while the US index S&P 500 was up 21.8%. A dominating factor at the US stock exchange was the expected tax reform, which was passed in December. Share prices were not noticeably influenced by political uncertainties such as the recurring tensions between the USA and North Korea or the failure of the new US administration to deliver on some of its central election campaign promises.

Lending in euro area picks up again

For several years now, momentum has once again been picking up in the lending business in the euro area. Until the end of November 2017, the annual growth rate of loans adjusted for sales and securitisations to households was at 2.8% and for companies outside of the financial sector the rate was 3.1%. Thus, there was a pronounced acceleration in loan growth over the course of the year. This also applies to Germany, where loan growth increased again in 2017 from an already heightened level – to 3.1% for households and 4.7% for companies outside of the financial sector. An expansion of the volume of loans in Germany was accompanied by a sharp price increase in residential and industrial real estate. The overall index for real estate prices in Germany, determined by the Association of German Pfandbrief Banks, indicated a price increase of 7.7%. In 2017, the government responded to the price trend of the past few years and passed an amendment to the financial regulation law (Finanzaufsichtsrechtergänzungsgesetz) which is designed to counteract negative influences on financial stability, for example lower lending standards.

Health care sector and health care market

The health care market continued on its growth path in 2017. Contributing factors included progress in medical technology, demographic trends and growing health awareness among the population, in combination with technological change. An important growth factor is the digital health care market. There are various participants in this sub-market: For example, start-ups develop special apps or established enterprises extend their value chains by offering digital products and access through digital channels. The market is also becoming increasingly attractive for enterprises that previously did not belong to the sector. Providers such as Amazon, Google or Apple, which in the past offered telecommunications or other (digital) products and services, are now transferring their expertise to the health market.

Digital solutions develop better than average in the self-paying market in particular. The extended health care economy, i.e. enterprises that offer more than the traditional range of services in medicine, including the areas of e-health, sports and wellness and other services, recorded an increase in sales of services with self-payment of nearly 11% in 2016, whereas traditional and reimbursable health care services only achieved a gain of 3%. Several market studies even expect an annual increase in the digital health care economy of up to 21%.

New legal framework conditions

Public health care policy continues to face major challenges in view of the changing economic, social, demographic and technological conditions. In the past legislative period, social legislators already introduced extensive legislation, such as the Act concerning the Further Development of Financial Structures and Quality (GKV-Finanzstruktur- und Qualitäts-Weiterentwicklungsgesetz), the Act to Strengthen Care Provision in the Statutory Health Insurance System (GKV-Versorgungsstärkungsgesetz), the Hospital Structures Act (Krankenhausstrukturgesetz), three nursing care strengthening acts, the E-Health Act (E-Healthgesetz), the Prevention Act (Präventionsgesetz), the Act to Improve Hospice and Palliative Care (Gesetz zur Verbesserung der Hospiz- und Palliativversorgung) as well as the Anti-Corruption Act (Antikorruptionsgesetz). Among other things, these acts aim to secure sustainable financing for ever increasing health care expenditure as well as to ensure long-term universal provision of medical treatment close to patients' homes. Furthermore, they are designed to optimise the interconnection of the sectors, establishing safe digital communication between patients, practices, pharmacies, hospitals etc., as well as tangibly improving the quality, effectiveness and efficiency of medical services and nursing care. The emphasis of future public health policy will be on cross-sectoral needs planning and assessing the quality of outpatient and inpatient medical services.

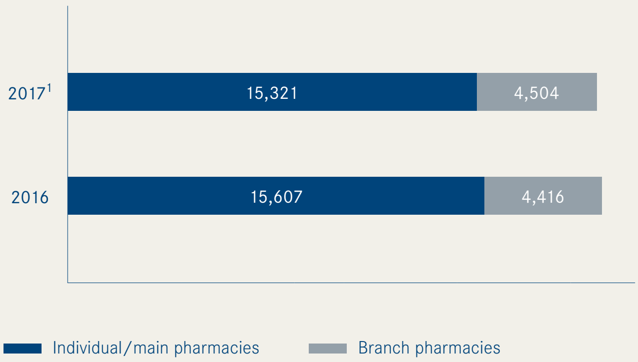
Pharmacists – an eventful year

Pharmacy revenue grew by 3.3% in the first half of 2017. It can be assumed that this trend remained largely unchanged overall up until the end of 2017. With regard to revenues and the operating result, the ongoing market differentiation of the past few years continues: Many smaller pharmacies with relatively low revenues face competition from the numerous high-revenue pharmacies.

While the number of pharmacies is still declining in Germany overall, the number of branches and highly effective branch networks continues to rise. To date, approximately 38% of the pharmacies in the market are organised in branch networks. Accordingly, the number of salaried pharmacists has also been growing steadily for a number of years.

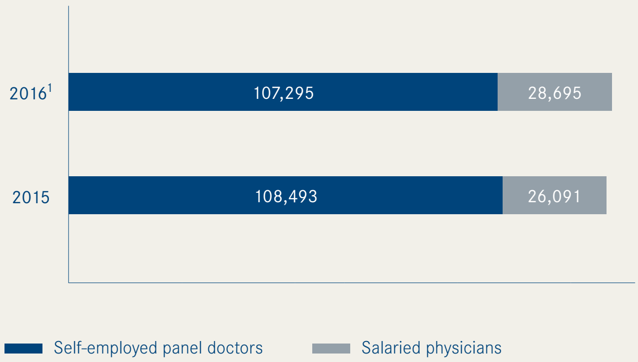
The increasing influence of national as well as EU legislation and stipulations on the control mechanisms for German pharmaceutical supply gave rise to activity on the pharmacy market in 2017 overall. One example

Number of pharmacies



Source: Federal Union of German Associations of Pharmacists (ABDA)
1) As at 30 September 2017; the figures provided are those available at the editorial deadline.

Number of self-employed panel doctors and salaried physicians



Source: National Association of Statutory Health Insurance Physicians
1) The figures provided are those available at the editorial deadline.

that should be mentioned here is the revised Act to Strengthen Pharmaceutical Supply in the Statutory Health Insurance System (Gesetz zur Stärkung der Arzneimittelversorgung in der gesetzlichen Krankenversichrung – AM-VSG), by which pharmacists are entitled to receive more money for the preparation and delivery of standard prescriptions and narcotics on the one hand, and the invitation to tender for cytostatic drugs is prohibited on the other. Moreover, there have been repeated discussions about the prohibition of mail-order sales of prescription pharmaceuticals (Rx medicines). Ultimately, the application of fixed prices for foreign mail-order pharmacies was overturned by the European Court of Justice. However, in Germany the planned legislation for the prohibition of mail-order sales of prescription pharmaceuticals failed in 2017. There was also a discussion in the year under review with regard to the question whether discounts and rebates on Rx medicines may be combined by wholesalers. In the end, the Federal Court of Justice (Bundesgerichtshof – BGH) decided that the conditions of wholesale are legal and do not breach legislation on pharmaceutical pricing.

Physicians – trends of recent years continue

The total remuneration of the statutory health insurance for panel doctors will increase by around €1 billion in 2017. This corresponds to a rise of around 2.7%.

The number of self-employed panel doctors also continued to decrease steadily in the year under review. Young physicians in particular frequently seek (part-time) employment in outpatient care when starting out, rather than aspiring to open their own practice.

The number and also the proportion of salaried physicians rose in 2016 by approximately 10%, or just under two percentage points. For financial 2017, we expect a similar general trend. The number of panel doctors working part-time also increased in 2016, by a good 11%. The number of panel doctors working full time sank by 2% year on year. This trend is likely to have continued in 2017.

The number of physicians employed in cooperative forms of professional practice continued to rise in 2017, by almost 3% compared with 2016.

Dentists – salaried employment still preferred

With regard to panel dentists, it can be assumed that the development of their earnings situation remained stable in the year under review.

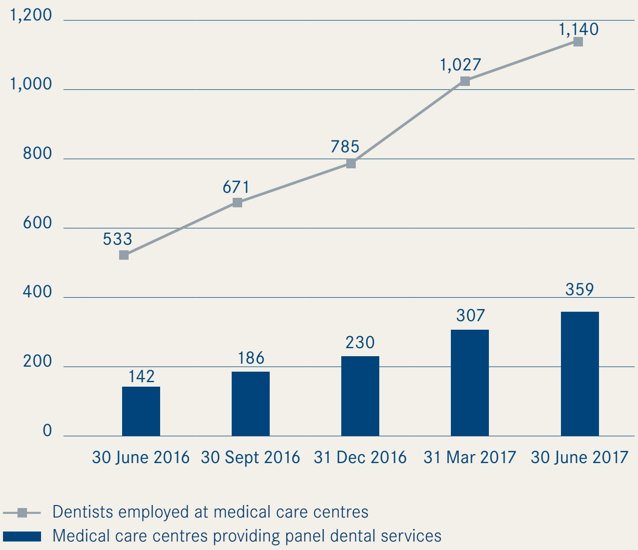
Young dentists still prefer to seek salaried employment over self-employment. They shy away from the supposed risk of rising investment costs, thus increasingly looking for salaried positions at established dental practices. The number of dentists employed at a practice went up 8.7% by the end of the second quarter of 2017 compared with the corresponding period in the previous year. By contrast, the number of dentists providing panel dental services decreased by 1.7% in the same period.

Since 2015 at the latest, when the establishment of dental medical care centres became legally permissible, the trend in dental medicine has been towards larger, typically medium-sized types of businesses, organisations and services. Since then, the number of medical care centres providing panel dental services has grown continuously. At the end of the second quarter of 2017, there were already 359 dental medical care centres in Germany.

Veterinarians – moderate increase in total income in 2017

With effect from 27 July 2017, the fee schedule for veterinary surgeons (GOT) was adjusted to economic growth. As a result, fees as well as remuneration for advisory activities rose. Thus, total revenues for veterinarians in 2017 are expected to have seen a moderate increase compared to the previous year.

Number of dental medical care centres and dentists employed there



Source: National Association of Statutory Health Insurance Dentists

The number of self-employed and salaried veterinarians did not change substantially in 2016. It can be assumed that the number of self-employed veterinarians will drop, since financial investors are focusing on veterinary medicine. These investors buy up veterinary practices and hospitals over time as part of their so-called buy-and-build strategies, and integrate the practices into chain concepts.

Hospitals – increasing pressure on cost, quality and efficiency due to limited financial means

In the area of inpatient medicine, a concentration process can still be observed. The total number of hospitals in Germany has continued to decline in recent years. It can be assumed that there will be further concentration within the inpatient sector. This is due to the growing pressure to cut costs while improving quality and efficiency which results from the limited financial resources of the statutory health insurance and the German federal states. Moreover, some shifts are also occurring in the ownership structure in favour of private and non-profit hospitals. Regulatory requirements concerning the quantity and quality of services are also having an impact on hospitals. They require sustained investment to secure economic stability. In order to adapt the structures of their services to the conditions on the health care market, hospitals will increasingly be forced to finance themselves to offset declining public subsidies. In addition, more and more hospitals are competing in the area of outpatient services; thus, the borders between the health care sectors are becoming increasingly blurred. It is the wish of health-policy decision-makers and the future strategy of the hospitals to reduce excess capacity, limit the service volume, establish quality as a remuneration benchmark, increasingly open hospitals for outpatient services as well as integrate cross-sector medical care planning.

Outpatient and inpatient nursing care facilities – constantly rising demand for new and alternative care capacities

The demand for nursing care of an ageing population is growing and with it the number of nursing care facilities. In addition, the group of people entitled to services is continuously rising. There is already a wide range of existing nursing care facilities. This is being supplemented by a growing number of community-based offerings that provide innovative concepts in living, service and support. In addition, integration of concepts combining medical treatment and nursing care is on the rise. New and/or alternative care services will also be in strong demand in future.

Health care enterprises and digitisation

The increasing demand for health products and services, as well as advances in medical technology, pharmaceuticals, biotechnology, information and communications technologies have continued to bring sustainable growth to companies in the German health care sector. Technological change and increasing digitisation have given rise to new health care services, which are offered by innovative companies providing diagnostics and therapy. Accordingly, numerous possibilities for health care enterprises to successfully position innovative products on the market arose again in the year under review. The main focus when defining the regulatory framework will be on the aspects of patient safety, quality of care and accelerating innovation.

Business performance

Situation in the banking market remained challenging

The framework conditions for banks in 2017 were just as challenging as in the previous years. Although the banks generally profited from the favourable overall economic situation in Germany, the burdens of the low interest level, investments in IT and digitisation as well as expanding statutory regulation continued to have an effect. The uncertainties due to the ongoing Brexit negotiations and the inauguration of the new American president did not lead to lasting strains on the capital markets as initially feared. On the contrary, generally rising share prices provided positive stimuli. Nevertheless, in the year under review the banks continued to be faced with changing customer needs, new market participants and ever stronger competition. Therefore, they further intensified their efforts to give focus to their business models, streamline processes and thus cut costs.

Our overall evaluation of the business performance in 2017 is positive when compared with our expectations. In a challenging environment, we succeeded in closing 2017 with a stable net profit as planned, posting a value of €61.9 million (31 December 2016: €61.0 million). This was due to our strong market position as well as the favourable economic conditions in the health care sector. We achieved our goal of paying stable dividends to our members once again in the current financial year. We also again strengthened our reserves.

The fulfilment of our statutory purpose continued to be at the heart of our business in 2017. With our specialised banking services, we support our members and customers in achieving their professional and private goals. Based on this focus, we continued the positive development of our customer business in the year under review. This is reflected in the further expansion of our member and customer base: In 2017, we served 436,260 customers (31 December 2016: 415,700 customers). At the same time, the number of members increased to 111,494 (31 December 2016: 109,680 members).

In the year under review, we once again expanded our lending business. The new lending business was dynamic, with loans and advances to customers rising by 8.5% to €32.0 billion (31 December 2016: €29.5 billion). The reason for the increase was the consistently high demand from our retail and corporate clients for our financing expertise, as well as the continuously growing number of customers. We thus almost achieved our performance targets.

Our lending business was essentially refinanced via liabilities to customers; these were stable at €26.0 billion (31 December 2016: €25.8 billion). As a result, the balance sheet total rose by 7.2% to €41.4 billion on 31 December 2017 (31 December 2016: €38.6 billion), thereby reaching the targeted level.

Positive development in the Retail Clients business segment

In the Retail Clients business segment, we support the professional and private endeavours of pharmacists, physicians, dentists, veterinarians and psychotherapists with our apoPur advisory concept, which is tailored especially to their needs and life phases. Thanks to this consulting approach, we continued to be successful in 2017. We further strengthened the lending and securities business in particular. Last year, we further expanded our advisory services. We gained a large number of new customers in 2017, especially among students in the health care professions, but also among salaried and self-employed health care professionals. Customer satisfaction rose significantly, and there has been strong growth in security yields.

In the Private Banking division, we reorganised and pooled our expertise in asset advisory services at local level. Our Private Banking advisors are now active at 42 locations. Together with the asset specialists at our branches, they continue to expand our advisory activities.

Stronger growth in loan portfolio on the balance sheet

Thanks to the excellent new business and continued declining redemptions, the loan portfolio with respect to retail clients increased significantly once again. On the balance sheet date, it amounted to €27.1 billion (31 December 2016: €25.2 billion).

In spite of the continued decline in the number of start-ups in the outpatient health care market, we expanded our business start-up financing portfolio to €6.6 billion (31 December 2016: €6.3 billion), thus strengthening our leading market position in this field.

The demand for real estate financing remained high in 2017 due to the low interest level. In a strong competition on terms, the portfolio of real estate financing was at €15.6 billion at the end of the year, well above the figure at the end of 2016 (31 December 2016: €14.1 billion). Investment and private financing reached a volume of €4.8 billion by the end of 2017 (31 December 2016: €4.9 billion).

Customer deposits up again

In 2017, the average volume of demand, savings and fixed-term deposits of our retail clients rose again significantly, amounting to €15.9 billion (2016: €14.0 billion). Due to the persistently low interest rates, our customers were primarily interested in investments with short-term maturities and high availability.

Securities business expanded

Thanks to the stable economic situation and the positive performance of the global stock markets, framework conditions for the securities business were favourable in 2017. Since we have also significantly stepped up our customer approach activities, we increased both the security yields and the deposit volume in the Retail Clients business segment. The latter increased in 2017 to reach a total of €8.0 billion (31 December 2016: €7.2 billion). In particular, demand for integrated portfolio solutions in the form of mixed funds or mandated business was high.

Growth in asset management

The positive growth trend in asset management continued. In a challenging market environment, apoBank posted significant increases year on year. The number of customers increased to more than 6,600 (31 December 2016: around 5,000); the managed volume rose to €3.2 billion (31 December 2016: €2.7 billion). The introduction of the new asset management option apoVV SMART with a starting volume of €50,000 rounded off the product range in the financial portfolio management segment.

Volume in insurance and building society business increased

The insurance business grew considerably once again compared to the previous year with a brokerage volume of around €364 million (31 December 2016: €323 million). This increase was driven by a rise in demand for index-linked insurance products and the use of insurance products as redemption replacement for financing.

In the building society business, the total contract volume rose to €461 million (31 December 2016: €441 million). Investments in real estate and thus in building society contracts were still in high demand. However, due to the low interest levels, which continue to be accompanied by a high rate of redemptions, the benefits for the building society savings business were somewhat limited.

Close collaboration with professional associations representing groups of health care professionals

apoBank traditionally cooperates closely with the professional associations representing all groups of health care professionals. These include the associations of panel doctors and panel dentists as well as the chambers.

In 2017, apoBank continued its trust-based business relations with the professional associations. In view of the low interest environment, customers adapted their liquidity management. Their deposits therefore declined to an average for the year of €3.7 billion (31 December 2016: €3.9 billion).

Positive development of business with our institutional clients

The customer group of institutional clients includes occupational pension funds for the health care and other liberal professions, as well as other financial intermediaries. These include customers such as health care institutions, pension funds and other professional investors.

We support customers with a comprehensive range of products and services, comprising advice, development of the product solution and custody of the product.

Modular advisory services

At the heart of our tailor-made advisory services there is always a holistic assessment of the risk and yield situation, which enables us to support our customers in managing their investments. The current regulatory requirements are always taken into account.

apoConsult is a combination of our modular advisory services which offers customers tailored strategic asset allocation with ongoing risk monitoring and comprehensive reporting. For the continuous monitoring, we apply our proven risk management system, which our customers also use to manage their investments during the course of the year. With our asset liability management, we provide customers with insights that are essential for assessing long-term financial sustainability and thus also for balance sheet management.

In financial 2017, we again achieved an increase in the number of advisory mandates.

Continuity in product solutions for institutional customers

Our product solutions, such as portfolio management and the apoScore risk monitoring system, continued to meet with high demand from our institutional customers in 2017. In the direct pension investment business, portfolio risk monitoring is becoming ever more important due to the sustained low interest phase and growing statutory requirements.

Our independent credit rating analysis tool, apoScore, supports our customers in the systematic risk assessment of issuers. We use scoring models to analyse banks, countries, enterprises and insurance companies. In the case of a deterioration in credit ratings, ad hoc analyses are used as the basis for recommendations. Demand for apoScore continued to rise in the year under review, since it plays an important role in helping investors comply with the regulatory requirements.

Strong market position in the depository business

The depository function is one of the key competencies offered by apoBank. The investors profit not only from our high levels of performance and experience, but also from our ability to flexibly implement fund solutions in the securities and real estate area in the best possible way for the customer. In the year under review, we substantially expanded our business through the acquisition of the depository function of a private bank. As a result, the depository volume increased to €18.3 billion (31 December 2016: €14.5 billion); the number of managed funds rose to 205 (31 December 2016: 158). With the expansion of our depository business, we further strengthened our good position in the competitive depository market.

In real estate, we also expanded the number of our mandates for real estate special funds and investment stock corporations.

Lasting growth in the corporate clients business

apoBank pools its integrated advisory services for companies in the health care market in its Corporate Clients business segment. Corporate clients consist primarily of companies in the pharmacy wholesaling and dental trade, the pharmaceutical and medical technology industries and private clearing centres. In addition, we support providers of inpatient care such as clinics, rehabilitation facilities, and nursing care facilities. We offer our unique financing expertise for complex (real estate) projects, accompanying them from the design phase through to implementation.

Thanks to our deep understanding of the entire health care market which our range of advisory services is built on, in the year under review we again succeeded in strengthening our market presence, broadening our customer base in all industry segments and consolidating existing customer relationships. In response to the wants and needs of our corporate clients, we are also permanently expanding our portfolio of products and services.

The low interest level and the ongoing positive growth prospects in the health care market had a beneficial impact on our business performance in 2017. Demand for financing increased, in particular by the initiators of real estate projects as well as inpatient care providers (clinics, nursing homes). This was reflected in our business results: The loan volume in the Corporate Clients business segment rose again last year, amounting to €3.1 billion (31 December 2016: €2.6 billion).

Net assets, financial position and results

In the following paragraphs, we provide details of the main income and expenditure items for 2017.

Income statement

	31 Dec 2017 €m	31 Dec 2016 €m	Change %[1]
Net interest income[2]	606.2	625.6	– 3.1
Net commission income	156.3	139.0	12.5
General administrative expenses	– 530.1	– 516.4	2.6
Net trading result	0	0.7	-
Balance of other operating income/expenses	– 8.9	0.3	-
Operating profit before risk provisioning	223.7	249.2	–10.2
Risk provisioning from the operating business[3]	12.1	5.7	>100
Risk provisioning with reserve character[4]	–103.0	– 95.3	8.1
Operating result	132.8	159.6	–16.8
Taxes	– 70.9	– 98.6	– 28.1
Net profit after tax	61.9	61.0	1.5

1) Deviations due to rounding differences.
2) Including current income from shares, fixed-interest securities, participations and shares in affiliated companies.
3) This includes individual risk provisioning measures for the customer lending business as well as for financial instruments and participations.
4) This includes risk provisioning which does not concern individual risks, as well as allocations to the fund for general banking risks and general banking reserves.

Net interest income down year on year, as expected

The low interest rates had a negative impact on the development of net interest income, although the decline was smaller than in 2016. In 2017, net interest income fell only slightly by 3.1% to €606.2 million (31 December 2016: €625.6 million).

In the lending business, with new loans reaching a volume of €6.8 billion, we posted a substantial gain (31 December 2016: €6.4 billion). Fewer redemptions were made than in 2016, so that the loan portfolio on the balance sheet showed a significant overall increase. We thus succeeded in offsetting a part of the yields which were omitted according to plan from our strategic interest rate risk management.

The trend towards short-term demand deposits continued on the refinancing side. In 2017, we once again avoided custodial fees for retail clients. Custodial fees were only introduced for our large customers and/or institutional customers.

Net interest income was considerably lower than planned. This is due to the fact that we waived an originally planned pay-out from a special fund.

The net interest margin fell to 1.5% (2016: 1.7%).

Lively securities business results in higher net commission income

Net commission income rose noticeably by 12.5% to €156.3 million (31 December 2016: €139.0 million). In the year under review, the expansion of our investment advisory services for our retail clients paid off. The securities business with our retail clients was lively. In particular, the private asset management business expanded both in terms of the number of customers and volume. As a result, the development of the deposit volume of our retail clients was encouragingly positive, as was the investment banking business with institutional customers. We also recorded gains in payment transactions. Overall, we almost achieved our target for net commission income.

General administrative expenses rose only slightly

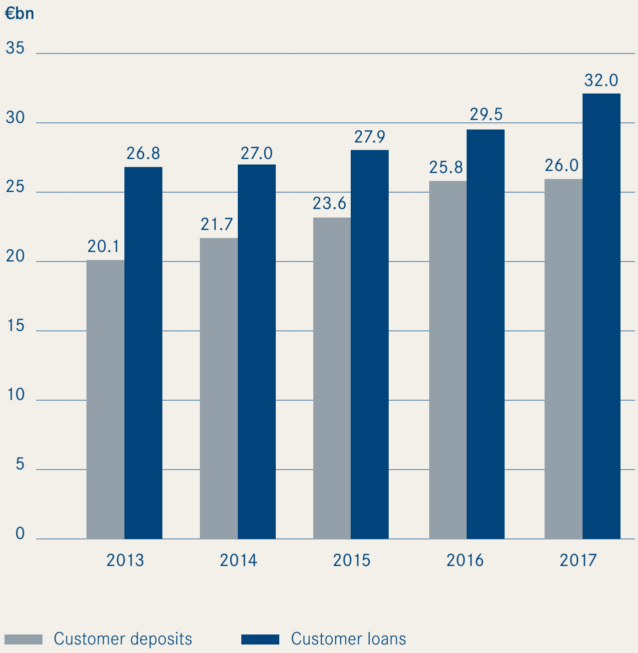
In the year under review, our general administrative expenses rose only slightly to €530.1 million (31 December 2016: €516.4 million), and were thus considerably lower than expected. Personnel expenses dropped to €266.5 million (31 December 2016: €272.8 million), and were hence slightly higher than planned. Operating expenditure including depreciation rose substantially by 8.2% to €263.6 million (31 December 2016: €243.7 million). This was primarily due to the costs of the preliminary project leading up to IT migration. However, overall the increase in operating expenditure was significantly lower than expected, due to the fact that the IT migration project started later than planned.

The cost-income ratio in the year under review amounted to 72.6% (31 December 2016: 69.2%), which was slightly better than anticipated. This was due to fact that the rise in operating expenditure was not as strong as expected.

Operating result higher than expected

The operating result, i.e. profit before risk provisioning, amounted to €223.7 million (31 December 2016: €249.2 million). Due to the developments described above, this result was slightly higher than expected.

Customer deposits and customer loans



Risk provisioning continues to be positive

Risk provisioning for the operating business, which was at €12.1 million, was positive for the second year running (31 December 2016: €5.7 million). The result thus deviated from our target, which had assumed further allocations to the operating credit risk provisioning to the amount of standard risk costs. On the one hand, we registered high net releases of individual loan loss provisions due to our successful risk management; in addition, there was yet another strong gain in income from receivables we had already written down. On the other hand, we received unplanned proceeds resulting from the sale of a shareholding, enabling us to post a positive contribution to profit in the “Financial instruments” item.

Risk provisioning with reserve character amounted to €103.0 million (31 December 2016: €95.3 million). Due to the positive development of risk provisioning for the operating business and the increase in operating income in particular, which was lower than expected, we were able to build up substantially higher reserves than planned. This item covers precautionary provisioning measures for any unexpected future burdens; it also includes the fund for general banking risks, to which we assigned €60.0 million.

Stable net profit

The operating result declined due to the allocation to reserves in particular, falling by 16.8% to €132.8 million (31 December 2016: €159.6 million). Nevertheless, the result was still very significantly higher than expected. After taxes, net profit amounted to €61.9 million (31 December 2016: €61.0 million), which is on target. The return on equity after taxes amounted to 3.6% (31 December 2016: 3.7%), the return on investment was 0.15%[1] (31 December 2016: 0.16%).

The net profit achieved allows the Board of Directors and the Supervisory Board to propose to the Annual General Meeting a dividend of 4% and an allocation to disclosed reserves of €16 million.

Higher balance sheet total and comfortable liquidity situation

The balance sheet total rose to €41.4 billion as at 31 December 2017 (31 December 2016: €38.6 billion), thereby reaching the target level. Loans and advances to customers increased to €32.0 billion (31 December 2016: €29.5 billion); this was due to the consistently high demand for our financing expertise. The securities portfolio amounted to €5.7 billion (31 December 2016: €6.1 billion).

apoBank's liquidity situation remained comfortable throughout 2017. As an established market participant with good credit ratings, we secure funds for refinancing through various sources and this is supported by a widely diversified customer and investor base. The largest source of refinancing comes from liabilities to customers. In the year under review, these were stable at €26.0 billion (31 December 2016: €25.8 billion). This amount also includes the promissory note funds and registered bonds placed with our customers totalling €3.4 billion (31 December 2016: €3.8 billion).

We are also issuing more covered bonds (Pfandbriefe) and unsecured bonds to our institutional clients, members of the cooperative Finanzgruppe and the capital market. In the Pfandbrief business, we once again successfully placed a benchmark mortgage Pfandbrief at a value of €500 million on the European capital market. As a result, the volume of the total Pfandbrief portfolio rose to €3.7 billion (31 December 2016: €3.2 billion).

In addition, we employ refinancing options offered by the Kreditanstalt für Wiederaufbau (KfW) and state development banks.

In the context of the ECB's open market operations, apoBank participated in the targeted long-term refinancing business offered during the past year to the value of €500 million. The ECB-eligible securities that are bound to the fulfilment of the regulatory requirements for liquidity amounted to €4.4 billion on the balance sheet date (31 December 2016: €5.0 billion).

Details on the numbers of customers and members can be found in the "Business performance" section starting on page 36. The equity capital item is explained in the section "Overall capital situation" of the risk management report, on page 55 of this annual financial report.

1) Return on investment corresponds to the net profit after tax in percent of the average balance sheet total.

Ratings

	Standard & Poor's	Fitch Ratings (group rating)
Long-term rating	AA–[1]	AA–
Short-term rating	A–1+	F1+
Outlook	stable	stable
Pfandbrief rating	AAA	–

As at February 2018
1) Issuer credit rating.

Good rating assessment maintained

apoBank's creditworthiness, i.e. its ability and willingness to fulfil all of its financial obligations fully and in a timely manner, is rated by Standard & Poor's. Standard & Poor's confirmed apoBank's good ratings in January 2018. Bonds which are potentially used as a liability in a bail-in are described by Standard & Poor's as senior subordinated bonds and receive the rating A+ with a stable outlook. Senior unsecured bonds continue to be rated AA- with a stable outlook.

In addition, apoBank is assessed indirectly according to the ratings by Standard & Poor's and Fitch Ratings for the cooperative Finanzgruppe. As apoBank is part of the cooperative FinanzGruppe and is a member of the cooperative protection systems, these ratings also apply to apoBank.

Summary

Our sustainable business model and our growth strategy for our core business continued to prove effective in the reporting period. Thanks to the stability and strength of our market position as well as our in-depth knowledge of the health care market, we succeeded in further expanding our customer and member base. We have thus further consolidated the positive trend of recent years, although we have continued to feel the impact of the low-interest phase in our interest income in particular. While net interest income remained slightly behind that of the previous year, net commission income rose substantially. At the same time, general administrative expenses increased only moderately despite the constantly rising regulatory requirements. Risk provisioning was positive in the reporting year. In addition, we once again strengthened our reserves and achieved a stable net profit. This allows us to pay a dividend of 4% to our members and at the same time expand our reserves. The liquidity situation remained comfortable throughout the reporting period; this was due to our broadly diversified refinancing base.

Customer confidence in apoBank is also supported by the stability of the cooperative Finanzgruppe and its integration into the protection systems provided by the Federal Association of German Cooperative Banks (Bundesverband der Deutschen Volksbanken und Raiffeisenbanken – BVR). Thanks to its strong position in health care, apoBank contributes to the success of the entire cooperative FinanzGruppe.

Sustainability report

The Bank complies with the legal obligation to publish a non-financial statement in accordance with Section 289b HGB by issuing a separate report, which follows the guidelines of the German Sustainability Code. The declaration of conformity can be found at www.apobank.de/nachhaltigkeit as well as on the German Sustainability Code page (www.deutscher-nachhaltigkeitskodex.de, in German). Since 2017, the Bank no longer applies the German Corporate Governance Code, which it did on a voluntary basis in the past.

Risk management report

Principles of risk management and risk control

The main objective of apoBank's risk management is to secure the Bank's long-term existence. This includes guaranteeing its ongoing ability to pay out dividends and the option of retaining earnings beyond this to finance its planned business growth.

Risk management at apoBank includes the following essential elements that contribute to achieving the objectives outlined above:
- risk inventory,
- business and risk strategy,
- organisation of risk management,
- risk-bearing capacity including stress tests,
- risk control, measurement and limitation,
- risk reporting as well as
- recovery governance and the resolution plan.

We discuss each of these items in more detail below. We then provide an overview of the development of the risk situation in 2017 and, pursuant to Article 435 of the Capital Requirements Regulation (CRR), we present the details of our risk management objectives and policy. apoBank's risk management system does not assess opportunities; it deals exclusively with risks.

Risk inventory

In the annual risk inventory, we determine the risk profile of apoBank with its participations and outsourced business operations, taking risk concentrations into account. The core element of the risk inventory is the identification of significant risks that are relevant to apoBank. apoBank considers risks as significant when by virtue of their nature, scope and possible interaction, these risks can have significant influence on the Bank's net assets, financial position and earnings situation. The risks identified as significant are measured and limited in the risk-bearing capacity calculations.

The significant risks for apoBank are credit risk, market risk, liquidity risk, business risk and operational risk as shown in the diagram on the opposite page.

In addition to the significant risks, apoBank also examines risks that can have an indirect impact on significant risks; these are also shown in the diagram. Due to their characteristics, these risks are considered cross-sectional risks and are included in the risk control and risk-measuring procedures of the significant risks. apoBank has identified reputation risk and model risk as cross-sectional risks.

Credit risk

Credit risk refers to the potential loss that can result from the partial or entire default or the deteriorating credit-worthiness of a borrower or contractual partner.

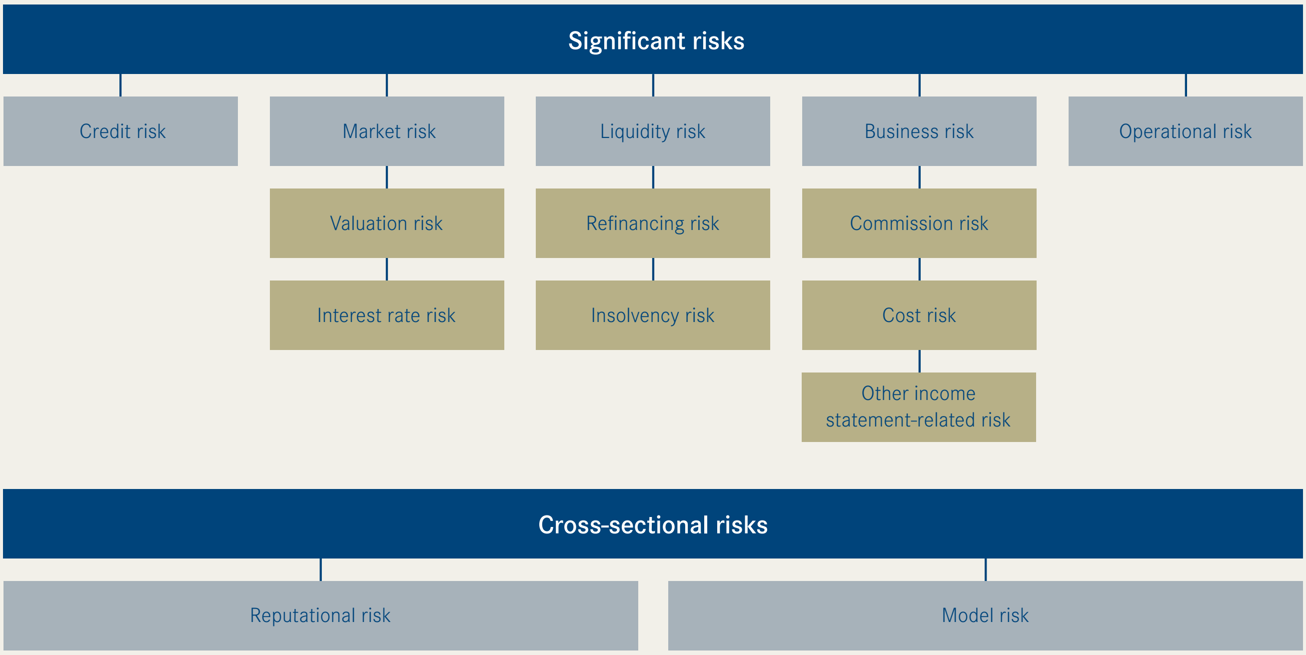
Market risk

Market risk is the potential loss that can occur in the markets due to changes in market prices (such as share prices, interest rates, credit spreads and foreign exchange rates) and/or market parameters (such as market price volatility) for the positions held by apoBank. In addition, possible deviations from margin contributions in the interest business are considered.

Liquidity risk

With respect to liquidity risk, we distinguish between insolvency risk and refinancing risk. Insolvency risk is the risk that apoBank may not be able to meet its current or future payment obligations in whole or in part. Refinancing risk is the threat of higher refinancing costs due to a downgrade of apoBank's credit rating and/or changes in the liquidity situation on the money and capital markets.

Classification of apoBank's types of risk



Business risk

In the case of business risk, we distinguish between commission risk, cost risk and other income statement-related risk.

Within commission risk, potential deviations from net commission income targets are captured. Cost risk is defined by the Bank as an unexpected development in material and personnel costs that was not budgeted for in income statement planning. Other income statement-related risk quantifies the risk caused by potential deviations from targeted income generated by participations, ongoing income from funds and other operating income and expenses.

Operational risk

apoBank defines operational risk as possible losses resulting from inadequate or failed internal processes or systems, human error or external events. This definition includes legal risks.

Reputation risk

apoBank defines reputation risk as the risk of direct or indirect economic disadvantage due to a loss of trust in the Bank on the part of its members, customers, employees, business partners or the general public.

Model risk

Model risk describes the risk that the methods and procedures used may be inaccurate or inappropriate in the event that circumstances change and that the risk calculated using this model will be inadequate, with regard to both individual risk and risk on an aggregated level.

Business and risk strategy

apoBank's strategic focus with its strategic objectives and measures to ensure the Bank's long-term success is defined in the business and risk strategy. The content of this strategy is the outcome of the strategy process, which is carried out annually and additionally as required.

Binding risk guidelines have been specified in the risk strategy for all business segments and types of risk. Compliance with these guidelines is monitored as part of overall bank control. In addition, the risk appetite of management is set down in the risk strategy. The responsible decision-making bodies are informed in the course of the reporting year about compliance with the risk guidelines and the specifications resulting from the risk appetite, such as minimum requirements for ratings, restrictions on maturities or limits.

Organisation of risk management

Organisational principles

The risk management system at apoBank is organised according to the Three Lines of Defence model and ensures that risks are recognised, evaluated, controlled and monitored. In this process, the front-office/sales functions on all hierarchy levels are kept functionally and organisationally separate from the back-office/risk management and risk control functions in order to avoid conflicts of interest and maintain objectivity. The principle of dual control is applied up to board level to enhance the reliability of the decision-making process.

The entire Board of Directors is responsible for the business and risk strategy, the risk-bearing capacity concept, the limitations derived from it and the appropriate organisation and structure of risk management.

The front-office functions at apoBank are responsible for operational management; together with the back-office function, these constitute the first line of defence. They monitor business operations on an ongoing basis and help recognise, evaluate and reduce risks in the context of their original (control) tasks. In addition, the back-office function is responsible for monitoring credit risk in the customer portfolios and the financial instruments portfolio at the levels of individual borrower, issuer and counterparty.

The risk control function is responsible for the methods and models used to identify, measure and limit risks, as well as for compliance with further requirements, independent monitoring and risk reporting on portfolio level. Together with the compliance function, it constitutes the second line of defence.

The Internal Auditing division is an essential component of the Bank's independent monitoring system and constitutes the third line of defence. It conducts downstream audits of the organisational units involved in the risk management process to check their compliance with the agreed regulations and controls.

In the course of establishing recovery governance, apoBank has instituted the organisational conditions for convening a Recovery Committee in crisis situations, as well as the function of recovery coordinator.

Accounting management and control

The Bank has its own internal control system (IKS) related to financial accounting. This consists of principles, procedures and measures that serve to ensure the effectiveness, efficiency and accuracy of accounting and compliance with the relevant legal regulations. The internal control system for accounting thus ensures that business transactions are always recorded, processed and recognised properly and entered into the accounts correctly. The Internal Audit division monitors the correctness and functional reliability of the processes and systems across all processes and, in particular, evaluates the effectiveness and appropriateness of the internal control system.

Issues of particular relevance to risk

As part of risk management, the Bank has defined the following topics related to internal processes to which it attaches particular risk relevance:
- outsourcing,
- lending competence,
- new product process,
- change of operational processes and structures,
- security management.

For the above topics, the Bank has implemented special procedural and organisational rules. Thus, it takes account of the risk relevance of these topics.

Risk-bearing capacity including stress tests

Risk-bearing capacity concept

The risk-bearing capacity concept is an important monitoring and controlling tool. We use it to analyse and evaluate the risk position of apoBank and to ensure our long-term existence.

The Bank conducts regular risk-bearing capacity calculations, in which two different approaches are used to examine apoBank's capacity in terms of capital. The going-concern approach has the primary controlling goal to protect our shareholders. In this approach, we conduct monthly monitoring to assess whether the regulatory and economic conditions for the continuation of business would still be met if all quantifiable risks occurred simultaneously. With the gone-concern approach, we conduct a quarterly review to assess whether priority creditors of the Bank will incur damage in the case of simultaneously occurring risks. Here, the probability that such a situation will occur is much lower than in the going-concern approach.

All significant risks are regularly measured according to economic valuation approaches on the basis of a 97.0% confidence level (going-concern approach) and a 99.9% level (gone-concern approach) and assuming a holding period of one year. Diversification effects between the risk types are not taken into account in either of the two approaches.

The Board of Directors sets a Bank-wide risk limit for each case, with additional limits in the going-concern approach for all significant risks, to specify apoBank's risk appetite. The risk cover potential available to cover the measured risks forms the basis of the Bank-wide risk limit and further differentiated limitations.

In the going-concern approach, the risk cover potential is derived from the balance sheet and the income statement. It is comprised of regulatory capital components that are not required to meet the regulatory minimum equity requirements, parts of the revenue generated in the course of the year and the budgeted operating result as well as the hidden reserves in selected securities.

In the gone-concern approach, the risk cover potential consists exclusively of components measured at or close to their present value. Primarily, these include the present value of the cash flows of the Bank's banking book items (specifically cash flow from loans, securities, deposits and issuances), as well as the present value of the costs that are required to generate the banking book cash flows.

In addition, the development of the risk-bearing capacity is assessed separately in the primary risk management approach to map a period of several years. This means it not only serves as an operational (risk) measurement tool but is also used for medium-term capital planning.

Stress tests

The risk-bearing capacity calculations are supplemented by Bank-wide stress tests (only in the going-concern risk management approach) and reverse stress tests (both approaches). In the Bank-wide stress tests, various scenarios are used to identify how unusually negative but plausible changes, as compared to the planned and expected development of the risks, affect utilisation of the risk cover potential. The reverse stress tests analyse under which circumstances the apoBank business model is no longer sustainable.

Bank-wide stress tests

As part of the risk-bearing capacity concept, the Bank regularly conducts stress calculations in the form of three scenario analyses. These analyses model the interactions between the regulatory and economic capital aspects as well as the interactions between risk types. Here, the effects of the scenarios on all of the Bank's portfolios are also assessed.

In the "health care market crisis" stress scenario, a model of potential structural changes on the German health care market is set up, the resulting impact on apoBank's business model is described and the implications for the Bank's risk-bearing capacity are analysed.

In the "financial market and sovereign crisis" stress scenario, a model is set up of serious distortions on the financial markets with extensive implications for the real economy, based on observations of the debt crisis in Europe as well as historical experience from the financial market crisis of 2008 and 2009.

The "crisis-of-confidence" stress scenario examines the impact of extensive reputational damage and a subsequent loss of customer confidence in apoBank.

Reverse stress tests

We use reverse stress tests to examine which events render apoBank's business model unsustainable. These tests are complementary to the Bank-wide stress tests. The focus of the tests is on the risk-bearing capacity with respect to regulatory and economic capital as well as the Bank's solvency. Within the scope of the reverse stress tests, apoBank calculates the extent to which risk factors need to be stressed individually and in combination before apoBank's business model is no longer sustainable. This is followed by a critical evaluation of the results of this stress test calculation with regard to possible sensitivities in the Bank's risk profile.

Risk control, measurement and limitation

Risk concentrations

apoBank also regularly reviews the risk concentrations associated with the above-mentioned significant risks – at least once a year. Here, the Bank differentiates between strategic and specific risk concentrations.

Strategic risk concentration follows directly from apoBank's business model and relates to the health care sector, particularly the associated customer business. The Bank defines specific risk concentration as the risk of potential negative consequences resulting from an undesired, uneven risk distribution among customers or within regions/countries, industries or products, or above and beyond these.

Concentrations are analysed and monitored within the significant risks (intra-risk concentration) as well as between risk types (inter-risk concentration). They are also included in the risk guidelines when there is a fundamental need for control.

Credit risk

In credit risk management, a distinction is made between the portfolios of retail clients, professional associations and large customers, financial instruments, and participations. The unexpected loss for credit risks as recognised in the risk-bearing capacity is determined based on portfolio data and taking into account concentration effects, and is limited at a Bank-wide level.

In addition, the volume is limited and monitored at portfolio and individual borrower level in the credit risk. Here, both individual risk and significant risks from group exposures or the risk category are taken into account. In order to monitor regional distribution of credit exposure at overall portfolio level, apoBank uses a system of country limits.

The risks are limited depending on fundamental country-specific macroeconomic data, the current creditworthiness of the respective country and apoBank's equity situation.

Specific internal and external rating approaches are applied for the different portfolios. The results of these are compared using a master scale. The quality of the internal rating systems is constantly monitored; they are validated on an annual basis and improved, if required. The validation results are documented annually for each rating model.

apoBank regularly agrees on collateral with its customers in the lending business. In particular, eligible collateral includes the assignment of receivables (such as earned income) and life insurance benefits, guarantees, the pledging of securities, the assignment/pledging of assets as well as mortgages. A proportional valuation limit (loan-to-value ratio) is assigned to each bankable collateral which can be evaluated based on its properties and other factors.

In order to reduce the counterparty risk from derivative transactions, master netting agreements (offsetting of counterparty items) are concluded and apply across products. In addition, apoBank uses collateral management (collateral for open positions) for derivatives.

Retail Clients business segment

The retail clients portfolio primarily consists of loans to health care professionals, cooperations in outpatient care and smaller companies in the health care sector if these companies' risks can be assigned to health care professionals.

To manage this portfolio, apoBank makes use of our unique apoRate rating procedure tailored especially to apoBank customers, in addition to customer-specific economic analyses. Combined with our excellent expertise in the health care professions segment, established over many years, these tools are good risk and early warning indicators. They represent a reliable basis for early detection of potential payment disruptions.

The processes of intensive loan management and problem loan management have also proven their worth when dealing with customers in this portfolio. Provided the detected risks have no visible impact on the management of the customer's account, these customers are given intensive support with the objective of transferring them back to standard loan management as soon as possible.

Problem loan management comprises a catalogue of measures that we develop together with the customer, which serves to resolve their liquidity or earnings problems. The customer is primarily supported by the regional loan management's special customer service teams. Their responsibility is to support the customer during the recovery phase or – if a recovery is not possible – to pursue the termination of the commitment.

The Problem Loan and Receivables Management department at headquarters supports the regional loan management teams and the branches in asserting apoBank's claims against non-payers.

Professional Associations and Large Customers business segment

The professional associations and large customers portfolio consists of loans to institutional health care organisations, large medical care structures, health care companies and other institutional clients.

We use several sophisticated rating procedures in this portfolio. Commitments to institutional organisations in the health care sector concern loans to legal entities of public law, mainly to professional organisations and associations of the health care professions.

According to the CRR, this portfolio belongs to the institutional exposure class; it is evaluated using a rating model designed by apoBank. Due to the special characteristics of these customers, the rating procedure focuses on the operator of the respective entity in addition to qualitative aspects.

Health care company loans are primarily granted to enterprises that produce or sell pharmaceutical, dental or medical products as well as to private medical clearing centres in the health care sector. The Corporates rating model offered by CredaRate GmbH is applied to assess the risk of those companies.

apoBank uses CredaRate GmbH's Commercial Real Estate rating model for commercial real estate financing exposures in the medical sector. The model evaluates relevant corporation-specific and real estate-specific risk factors in order to accurately assess the borrower's creditworthiness.

Treasury business segment

The investment of available funds in the money and capital markets is used for liquidity and balance sheet structure management at apoBank. These money and capital market investments as well as derivatives transactions are combined in the financial instruments portfolio. In addition to classical securities and money market instruments for liquidity management, it includes derivatives to manage the Bank's interest rate risk. In the customer business, apoBank takes up only a limited number of positions in foreign exchange and securities trading. In addition, it invests to a limited extent in start-up financing and co-investments in fund products sold to customers.

The VR bank rating of DZ Bank is the primary tool used for assessing creditworthiness in the financial instruments portfolio. apoBank has also established various early risk detection tools that are adapted to current market conditions. The established processes here include ongoing and systematic monitoring of relevant risk indicators allowing for a direct and timely response, should any action be necessary.

Participations and Corporate Center business segment

This business segment consists of the participations and Corporate Center business areas. The participations business area is responsible for the acquisition, management and sale of participations. Depending on the business purpose, we differentiate between strategic, credit-substituting and financial participations, which are pooled in the participations portfolio.

The Corporate Centers support the Board of Directors in the management of the Bank by advising them in the areas of strategy, risk management and control. In addition, the Corporate Centers assist the business segments in day-to-day operations.

Market risk

The market risks faced by apoBank are integrated into the general risk management framework. This is based on a differentiated system of risk measurement and risk control. The Bank's market risks primarily result from its overall interest rate risk and the change of credit spreads in the financial instruments portfolio.

We hedge currency risks as far as possible. apoBank is not subject to any material foreign currency risk overall; it is therefore not necessary to split the parameters involved into individual currencies. Other market risks are of subordinate importance. apoBank's business and risk strategy does not include active trading of securities, for example, to exploit short-term fluctuation in prices.

In order to reduce market risk and hedge its transactions, apoBank regularly employs interest and currency derivatives both at transaction level (micro hedges) and at Bank-wide level (strategic interest rate risk management).

Asset swaps, for example, are concluded at the level of specific securities transactions. To hedge interest rate risks for passive products with simple structures, we apply micro-hedges in the form of structured derivatives. Depending on the interest terms, issuances can also be used as natural hedges and remain in the banking book without having a specific relationship to micro hedges. In addition, interest rate derivatives are concluded at Bank-wide level as part of strategic interest rate risk management to align the interest cash flow with a strategic benchmark. To secure the exchange rate of foreign currency items, apoBank uses forward foreign exchange transactions, FX and cross currency swaps.

Bank-wide interest rate risk

The Bank-wide strategic interest rate risk management is based on an integrated management approach which includes both periodic and present-value parameters. The Bank distinguishes between the periodic net interest income risk and the present-value interest rate risk.

Our management objective is to achieve a moderate interest rate risk position at Bank-wide level and thus to stabilise interest income. The interest rate risk position, which results primarily from the Bank's customer business, focuses on the long term using derivative management instruments.

In measuring the periodic interest surplus risk, the impact of changes in the interest curve and missing targets in the customer business on the Bank-wide periodic interest result is simulated.

A key tool for monitoring the present-value interest rate risk is the Basel II interest rate risk coefficient. It provides information on the relationship between the loss of present value in the event of an ad hoc shock of +/– 200 basis points and the Bank's regulatory capital. In addition, it assesses the changes in present value in other adverse market scenarios and calculates a value at risk based on historical simulations.

Valuation risk of financial instruments

To measure the valuation risk of the financial instruments, we apply the value-at-risk method of historical simulation. While the parameters for operational controlling purposes are based on the market development of the previous 250 days, the parameters for valuation risk measured for the risk-bearing capacity are based on a 250-day period of crisis or stress (stressed value at risk).

To complement this, we carry out stress tests and validate the valuation risk model used by employing backtesting methods (mark-to-model backtesting and mark-to-market backtesting).

Liquidity risk

The highest priority of liquidity risk management at apoBank is to guarantee the solvency of the Bank at all times, taking account of the regulatory and economic requirements. On principle, solvency must also be ensured in serious crisis scenarios.

Financial liquidity management is based on the ongoing analysis and comparison of cash inflows and outflows in a liquidity gap analysis, which is set up on a rolling basis for the next twelve months. The liquidity gap analysis takes account of the expected liquidity development as well as different stress scenarios. In accordance with the MaRisk regulations, a combined stress scenario is also considered for market-wide and Bank-specific situations.

In addition, regulatory liquidity management takes into account the specifications regarding the liquidity coverage ratio and the net stable funding ratio.

The liquidity management framework is supplemented by regular evaluations of the balance sheet items on the basis of capital commitment over a longer-term perspective. The aim here is to promptly identify any issues which could endanger the sustainable refinancing of our business.

apoBank holds an extensive liquidity reserve, consisting of cash reserves and ECB-eligible securities. The securities in this portfolio can be sold or used as collateral at any time. This ensures apoBank's solvency, even in the event of a crisis. In order to determine the required liquidity reserves, we use a bottleneck calculation to compare the effects of the economic stress scenarios on liquidity against the results of the liquidity coverage ratio calculation. The requisite with the highest liquidity outflows represents the bottleneck and indicates the liquidity reserve that must be held.

In addition, by means of regular issuances as well as active customer support, apoBank ensures that there are sufficient refinancing options on the unsecured and secured money and capital market. The associated refinancing planning is linked to the business planning process and the specifications of the business and risk strategy. Key aspects of refinancing planning are maintaining an adequate maturity structure as well as sufficient diversification of the Bank's refinancing sources. A key refinancing source for apoBank are covered bonds (Pfandbriefe). The security of their recovery is monitored and controlled on a daily basis. The loans in the cover pool are selected defensively.

To ensure that the risk guidelines and the specifications set out by management with regard to the risk appetite are upheld at all times, we conduct monitoring by means of an appropriate limit system for planned and stressed liquidity, the deviation from the planned liquidity as well as for the liquidity coverage ratio.

Our liquidity contingency plan, which is revised annually, ensures a fast and coordinated response to possible crisis events.

All costs of the liquidity reserve to be held by apoBank are to be borne by the responsible business areas. To assign the liquidity risks and costs according to their source and offset them, apoBank uses an internal liquidity price allocation system.

In addition to the insolvency risk, apoBank regularly calculates the refinancing risk. The calculation of the refinancing risk on the basis of the periodic income statement represents the main management approach for liquidity in the risk-bearing capacity calculation and is limited accordingly. The risk value is determined by taking account of the refinancing volume and cost needed in the event of a risk. The net present value calculation of the refinancing risk, which is limited for all types of risk, constitutes the supplementary management approach.

Business risk

The Bank's business risk comprises commission risk, cost risk and other income statement-related risk.

Generally, it is not possible to actively limit business risks through specific measures. Nevertheless, appropriate premises in the planning process and controlling throughout the year support the stabilisation of the risks. In addition, a suitably designed, incentive-compatible remuneration structure ensures that potential sales risks are limited.

Commission risk

Commission risks arise in all business segments in which commission income is generated. At apoBank, these are the Retail Clients, Professional Organisations and Large Customers business segments as well as parts of the Treasury segment. Management of the commission risk is based on established processes, which include continuous monitoring and reporting.

Possible deviations from planned commission contributions are measured in the commission risk based on historical deviations from targets. The measurement of the commission risk itself is based on a value-at-risk approach (variance-covariance method).

Cost risk/other income statement-related risk
Cost risk and other income statement-related risk are assessed by means of a value-at-risk approach (variance-covariance method) based on historical deviations from targets. Cost risks are constantly monitored and controlled through a defined cost management process.

Operational risk

The starting point for controlling operational risk is the identification of potential operational risks by the local risk managers based on self-assessments. The local risk managers are also responsible for developing, implementing and monitoring measures to control all significant operational risks identified.

Risk Controlling verifies the plausibility of the self-assessment results, compiles and analyses them, and then reports them to the Board of Directors. The key data on the losses incurred from operational risks are recorded in the central risk event database.

Legal risks from standard operations are reduced using standardised contracts. The effects of insurable risks are alleviated by obtaining suitable insurance coverage. The security and stability of IT operations is guaranteed by a number of technical and organisational measures in particular. Fiducia & GAD IT AG, a specialised, quality-assured IT service provider, renders all services related to operational data processing and data retention as well as most of the data archiving. The contractual agreements are based on current standards.

The measurement of unexpected losses from operational risks in the risk-bearing capacity is based on the standard regulatory approach.

Risk reporting

apoBank has a comprehensive, standardised reporting system. It serves as the basis for detailed analyses and for deriving and evaluating alternative actions as well as deciding on risk controlling measures.

Monthly risk reporting is one component. Within this framework, the results, among other things, of the risk-bearing capacity calculations including monitoring the limits for the significant risk types are reported to the Board of Directors. A further component is the daily reporting of the market risk limit utilisation in the financial instruments portfolio.

Issues that are relevant for early warning are reported on an ad hoc basis to a specific group of recipients.

As monitoring bodies, the Supervisory Board and its Audit, Loan and Risk Committee are informed regularly of the current economic situation and risk position as well as risk controlling and limitation measures. The Audit, Loan and Risk Committee also discusses significant investments, the sale and purchase of properties and the acquisition and divestment of long-term participations. The committee held a total of four meetings in the 2017 financial year.

Recovery governance and resolution plan

Pursuant to the legal and regulatory requirements of the Recovery and Liquidation Act (Sanierungs- und Abwicklungsgesetz – SAG) and the Minimum Requirements for the Design of Recovery Plans (Mindestanforderungen an die Ausgestaltung von Sanierungsplänen – MaSan), the Bank has a recovery plan that was updated as planned in the year under review, as well as corresponding governance.

As a Single Supervisory Mechanism Institute (SSM institute) supervised directly by the European Central Bank (ECB), apoBank is subject to direct liquidation monitoring by the European authority for liquidation, the Single Resolution Board (SRB). To allow the liquidation authority to establish a settlement plan, apoBank submitted the relevant information in the year under review and conducted workshops with representatives of the liquidation authority.

Details regarding development of the risk position in 2017

Overall capital situation

The Bank-wide control of apoBank is geared towards differentiated management of regulatory and economic capital. This produces reciprocal effects between the regulatory and economic capital aspects, which are inherent in the conceptual design of the economic risk management approach.

Regulatory capital situation

The Bank evaluates its capital situation as comfortable.

By the balance sheet date, the equity ratio of apoBank calculated pursuant to the Capital Requirements Regulation (CRR) was at 21.8% (31 December 2016: 26.1%), while the common equity tier 1 capital ratio amounted to 19.5% (31 December 2016: 22.6%). apoBank's equity ratios at the end of 2017 were thus clearly below the previous year's levels and the target values; however, they continued to be significantly above the minimum requirements and are comparatively high in the banking sector.

After its annual supervisory review and evaluation process (SREP), the ECB once again specified the minimum common equity tier 1 ratio for apoBank in 2018 at a below-average level in comparison to other ECB-supervised banks.

Regulatory equity capital totalled €2,528 million as at 31 December 2017 (31 December 2016: €2,465 million). The common equity tier 1 capital of €2,141 million increased marginally to €2,254 million by the end of 2017. This rise is due on the one hand to the renewed growth in members' capital contributions, which reached €1,160 million (31 December 2016: €1,134 million). In addition, we strengthened our capital position with allocations to the fund for general banking risks in particular, as well as to the revenue reserves.

Supplementary capital declined considerably as expected, amounting to €275 million (31 December 2016: €324 million). The main reasons for this were that subordinated capital was accounted for to a lesser degree due to offsetting directly to the day within the last five years of the residual term and the fact that the uncalled liabilities adjustment and the reserve pursuant to Section 340f of the German Commercial Code (HGB) were not considered to the same extent as previously.

Risk-weighted assets amounted to €11,584 million at the end of 2017, a substantial increase on the previous year's figure (31 December 2016: €9,456 million). This rise reflects the growth of the lending business as well as the adjustment of the internal rating procedures to meet new ECB expectations.

The leverage ratio pursuant to transitional arrangements remained at 5.2%, almost on par with the previous year's level (31 December 2016: 5.3%).

Economic capital situation

apoBank's risk-bearing capacity was guaranteed at all times in the year under review. In addition, the two Bank-wide risk limits derived from the applicable risk cover potentials, as well as all limits defined for the significant risks according to the going-concern approach were adhered to at all times.

In the going-concern approach, the extent of utilisation of our economic capital by the measured risks reached 39.6% (31 December 2016: 39.1%), which is a low level once again. In the course of the year, the utilisation rate largely reflected the effects of regular business activities and moderate volatilities observed in the financial market environment. Overall, the rate fluctuated moderately in the range from 38.9% up to a maximum of 41.2%, and thus remained significantly below the target value and the internal warning threshold at all times.

The risks on the basis of a confidence level of 97% dropped to €412 million (31 December 2016: €432 million). The reasons for this were positive developments with regard to credit risks on the one hand, as well as declining valuation risks on the other hand. For the remaining types of significant risk, there were only insignificant changes in this risk management approach.

The utilisation rate of the Bank-wide risk limit adopted for the going-concern approach, amounting to €540 million (31 December 2016: €562 million), was 76.3% at the end of the year (31 December 2016: 76.9%).

At the same time, the risk cover potential declined in comparison to the end of 2016 to €1,040 million (31 December 2016: €1,106 million). Free regulatory equity that is not required for meeting the minimum capital requirements decreased due to an overall increase in the requirements; however, it benefited from the expansion of regulatory equity in the course of the effective additions to reserves from the 2016 annual financial statements. Other economic capital remained just under the previous year's figure.

The regular Bank-wide stress tests in this risk management approach confirmed a generally stable utilisation of economic capital. The utilisation rates in the various stress scenarios developed in the opposite direction compared to the previous year in part, whereby utilisation declined in the currently most pessimistic stress scenario "financial market and sovereign crisis".

In the complementary gone-concern risk management approach, the economic utilisation rate was on just as comfortable a level throughout as in the going-concern risk management approach. The utilisation of risk cover potential through the risks measured in this approach amounted to 39.1% at the end of the year (31 December 2016: 40.0%). The risks, which are measured on the basis of a confidence level of 99.9%, amounted to €1,459 million (31 December 2016: €1,409 million) against a risk cover potential of €3,731 million (31 December 2016: €3,523 million). The Bank-wide risk limit of €1,750 million (31 December 2016: €2,000 million) adopted for this approach was utilised at 83.4% as at the end of the year (31 December 2016: 70.4%).

The utilisation rates of the risk cover potentials by the risks measured in each of the two approaches confirm that the risks taken are consistent with the goals of the two risk management approaches of owner protection (going concern) and creditor protection (gone concern).

Risk-bearing capacity (going-concern approach/gone-concern approach)

as at 31 December 2017	€m	Share of risk cover potential %
Risk cover potential	1,040/3,731	100,0/100,0
Bank-wide risk position	412/1,459	39,6/39,1

Significant risks

as at 31 December 2017	Actual risk €m	Limit utilisation %
Credit risk	102/681	68.2/–
Liquidity risk	13/67	50.5/–
Operational risk	68/112	97.5/–
Market risk	129/519	70.0/–
Business risk	100/81	90.6/–
Bank-wide risk limit	540/1,750	76.3/83.4

Credit risk

The total unexpected loss (UEL) from credit risk faced by apoBank in the year under review in the retail clients and professional associations and large customers portfolios was almost on a par with the previous year's level. The rise in portfolio volume was offset by the high granularity and individual rating improvements. In the financial instruments portfolio, the level of risk at the reporting date was lower than at the end of the previous year, which is due to a smaller volume in the interbank balance as well as narrowing spreads. The limit for credit risk derived from the risk-bearing capacity was maintained at all times in the reporting period.

The key developments in credit risks for the individual portfolios are as follows.

Retail clients portfolio

In the retail clients portfolio, due to the positive development of new business, drawdowns rose to €28.7 billion (31 December 2016: €26.8 billion).

The rating structure shows a rating distribution with an emphasis on good and average rating classes, which is typical of this customer group. The rating coverage is very close to 100%. This portfolio is highly diversified: With around 199,000 borrowers, the largest individual risk accounts for only around 0.1% of the total drawdowns in this portfolio.

After offsetting new and no longer necessary precautionary measures, almost no value adjustments needed to be made at the end of the financial year. Thus, apoBank only had to spend an extraordinarily small share of the budgeted value. This confirms the above-average creditworthiness of health care professionals as well as apoBank's comprehensive financing expertise and effective risk management.

The rating system of apoBank

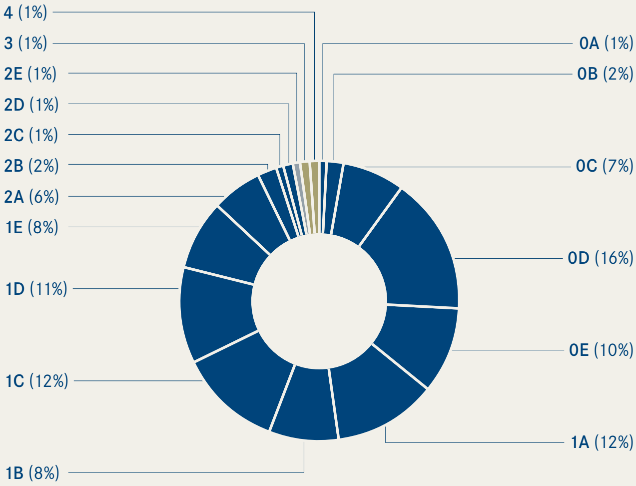
Meaning	Rating class (BVR master scale)	Probability of default %	External rating class[1]
Commitments with **excellent** creditworthiness, no risk factors (standard loan management)	0A	0.01	Aaa
	0B	0.02	Aa1
	0C	0.03	Aa2
	0D	0.04	
	0E	0.05	Aa3
Commitments with **good** creditworthiness, individual risk factors (standard loan management)	1A	0.07	A1
	1B	0.10	A2
	1C	0.15	
	1D	0.23	A3
	1E	0.35	Baa1
	2A	0.50	Baa2
Commitments with **low** risks (standard loan management)	2B	0.75	Baa3
	2C	1.10	Ba1
Commitments with **greater** risks (intensive loan management)	2D	1.70	Ba2
High-risk commitments (problem loan management)	2E	2.60	Ba3
	3A	4.00	B1
	3B	6.00	B2
Higher-risk commitments (problem loan management)	3C	9.00	B3
	3D	13.50	
	3E	30.00	Caa1 to C
Commitments **threatened by default** (according to CRR definition) – Commitments overdue by more than 90 days – Commitments with a loss provision from last or this year (problem loan management) – Write-offs – Insolvency	4A to 4E	100.00	D
No rating			

1) According to Moody's rating system. The internal apoBank rating classes (BVR master scale) are compared with the external rating classes based on the probability of default. As the BVR master scale is broken down into very small categories and contains more rating classes than Moody's, not all external rating classes are matched with an internal one.

Rating class distribution in the retail clients portfolio

Volume distribution based on drawdowns

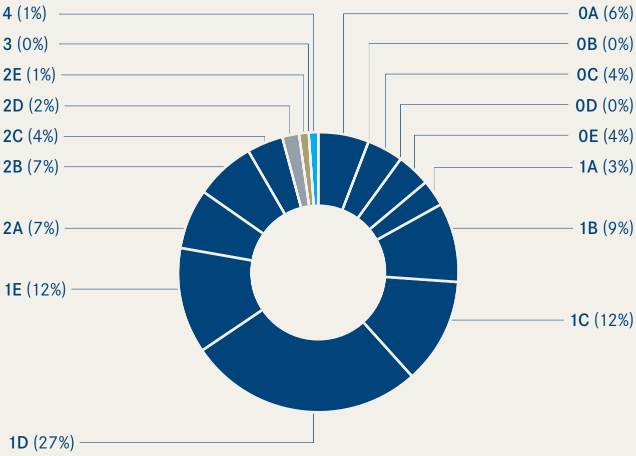
total of €28,660 million



Rating class distribution in the professional associations and large customers portfolio

Volume distribution based on drawdowns

total of €4,305 million



Professional associations and large customers portfolio

Total drawdowns in the professional associations and large customers portfolio increased by €0.7 billion compared to the previous year, to a total of €4.3 billion (31 December 2016: €3.6 billion). The rating distribution of the portfolio remains balanced. The rating coverage was complete.

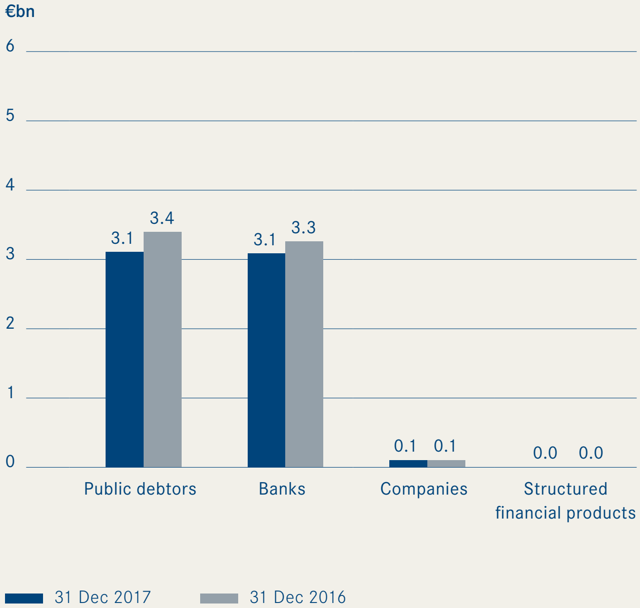
After offsetting, apoBank did not have to take any precautionary measures on the reporting date of 31 December 2017 for the professional associations and large customers portfolio. The dissolution of any precautionary measures that were no longer necessary exceeded the costs of new precautionary measures; as a result, the figure was far below the target value.

Financial instruments portfolio

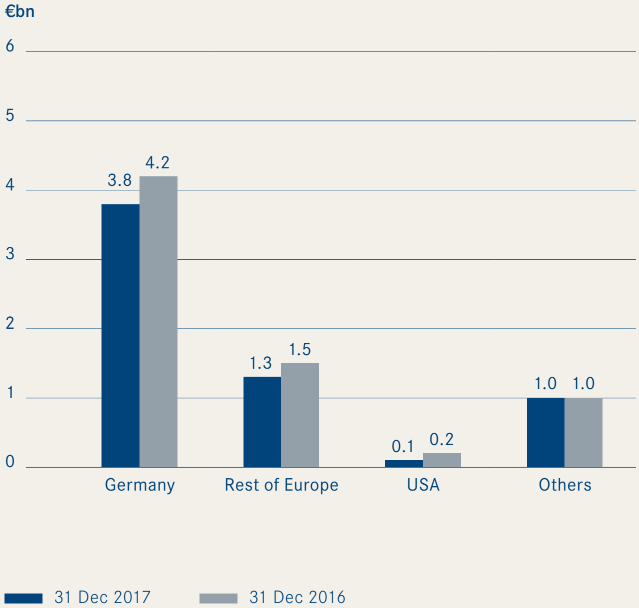
The risk volume of the financial instruments portfolio amounted to €6.2 billion on the reporting date, a decrease of €0.6 billion on the previous year's figure (31 December 2016: €6.8 billion). This is the result of a low level of securities in the liquidity reserve and of commercial papers.

Total exposure of the derivatives in the financial instruments portfolio was stable at €0.1 billion (31 December 2016: €0.1 billion). apoBank uses derivatives primarily to hedge against interest rate risks in the customer business. As at the reporting date, the nominal volume amounted to €30.3 billion (31 December 2016: €31.8 billion).

Total exposure of financial instruments portfolio by sector



Total exposure of financial instruments portfolio by country



As at 31 December 2017, as in the previous year, 99% of the financial instruments portfolio was rated in the investment grade range. The risk provisioning after offsetting was significantly below target as at the reporting date 31 December 2017, with an extremely low volume of allocations.

Participations portfolio

There were no noteworthy developments in this portfolio.

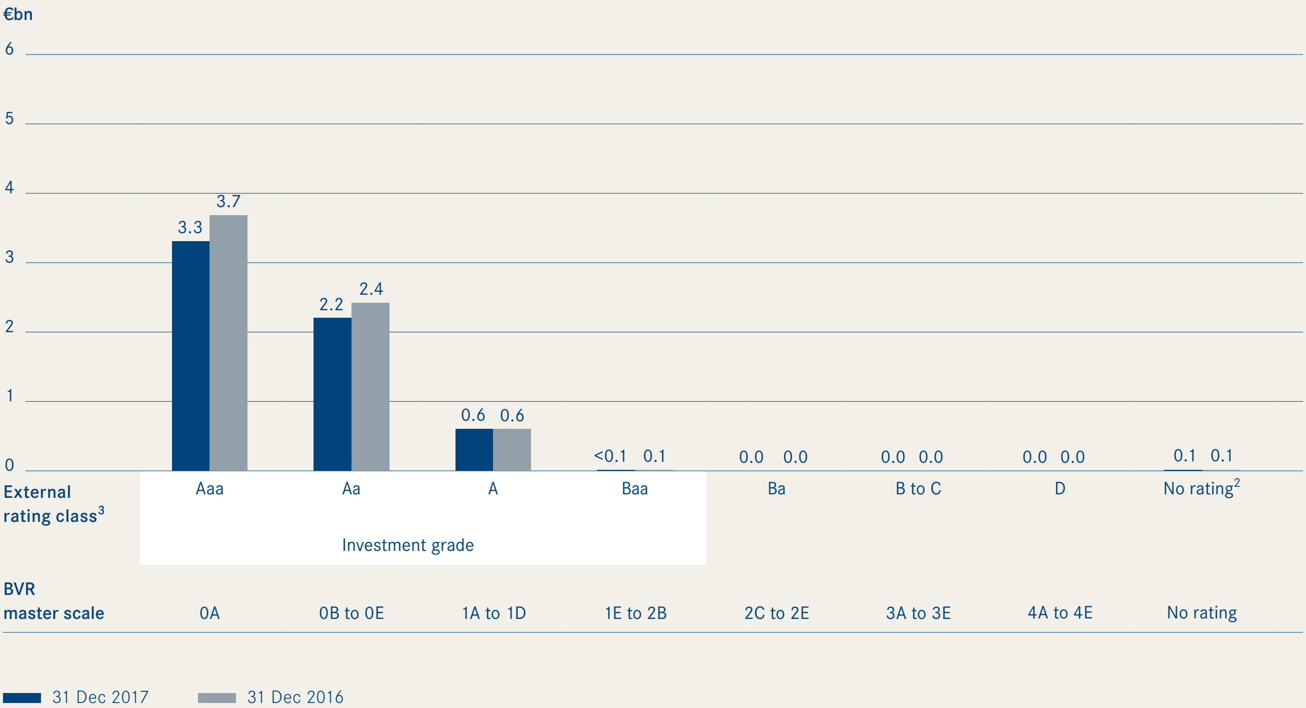
Market risk

The overall limit for market risk derived from the risk-bearing capacity (i.e. for the periodic interest surplus risk as well as the financial instruments valuation risk) was met consistently in 2017.

The stressed value at risk, applied within the scope of the risk-bearing capacity for valuation risks of financial instruments, decreased compared to the end of the previous year. The periodic interest surplus risk increased, however, in the course of the year. The valuation risk of the financial instruments, measured as part of operational market risk management, also rose slightly, remaining at a low level overall.

The results of the present-value regulatory stress calculations confirm moderate interest rate risks at a Bank-wide level. The Bank remained below the regulatory reporting limit of 20% of regulatory equity (interest risk coefficient) at all times in 2017. The interest rate risk coefficient reached its maximum value of the year in May, at 15.4%; as at the end of the year, it was 14.1% (31 December 2016: 16.1%).

Total exposure of financial instruments portfolio by rating class[1]



1) Total exposure is generally the book value (loan drawdowns or credit equivalent amount). The exposure for the INKA funds is determined by looking at the underlying assets; the exposure is accounted for on a cost value basis.
2) The unrated exposures are mainly composed of interbank and fund items.
3) The letter ratings shown here comprise all rating classes of the respective rating segment (i.e. Aa comprises Aa1 to Aa3, for example).

Liquidity risk

apoBank's liquidity supply was guaranteed at all times in 2017.

With regard to insolvency risk, both the limits of the liquidity gap analysis as well as the limits of the liquidity coverage ratio and the German liquidity regulation were maintained throughout the year. apoBank is easily compliant with the final minimum requirements for the liquidity coverage ratio of 100% starting from 2018. As at the end of 2017, the liquidity coverage ratio amounted to 131.8% (31 December 2016: 135%).

Particularly as a result of the deposit volume, which further increased in 2017, and the rise in apoBank's money market and Pfandbrief issues, our liquidity supply was ensured at all times in the reporting year.

Compliance with the Pfandbrief cover pool limits was assured at all times in 2017.

The refinancing risk accounted for in the calculation of risk-bearing capacity declined in the course of the year. The causes of this development were smaller spread volatilities as well as a reduction in refinancing volume due to the higher liquidity position. Overall, compliance with the limit established based on the risk-bearing capacity was maintained at all times.

Business risk

The limit for business risks derived from the risk-bearing capacity was maintained at all times in 2017. Overall, the measured risks fluctuated only slightly in the course of the year.

Operational risk

Operational losses decreased sharply in 2017 in comparison to the previous year. The focus continued to be on legal risks.

The operational risk considered in the calculation of the risk-bearing capacity increased slightly compared to the previous year. This is due to the small rise in the premium for reputation risks, which is derived from the operational risks. The operational risks are re-evaluated by means of a self-assessment, which is conducted annually and/or as needed. The limit for operational risks derived from the risk-bearing capacity was maintained at all times in 2017.

Disclosure of risk management objectives and policies pursuant to Article 435 of the CRR

Risk management declaration according to Article 435 (1) (e) of the CRR

apoBank's risk management system is geared towards our individual risk profile and the implementation of our risk strategy.

The risk management system, including the controlling and monitoring methods, takes all significant risks for apoBank into account. Our risk management system is designed to ensure the compliance of each of the business areas with the risk guidelines set out in the risk strategy, in addition to identifying, evaluating, limiting and monitoring the significant risks.

Our risk-bearing capacity concept takes all significant risks into account. For the risk-bearing capacity calculations, these are compared to the risk cover potential available in each case. The risk-bearing capacity concept thus helps apoBank to secure its long-term existence, which is the highest priority in risk management. We therefore consider our risk management system to be appropriate and effective.

The appropriateness and effectiveness of our risk management system is also reflected in the result of ECB's supervisory review and evaluation process, which finds our minimum capital requirement to be below the industry average.

The risk management objectives and the management of risks are described both on a Bank-wide level and in terms of the significant risks in the risk management report, which is part of the management report. It also contains information about our risk profile and the key performance indicators. The report gives a comprehensive overview of our risk management, and it shows how apoBank's risk profile and risk tolerance interact with respect to our risk-bearing capacity.

Disclosure pursuant to Article 435 (2) (a) to (c) of the CRR

Number of executive and supervisory functions held by members of apoBank's boards

Members of our Supervisory Board and our Board of Directors exercised a total of 29 executive functions and 21 supervisory functions in 2017 in addition to their positions at apoBank.

Knowledge, skills and experience of the members of apoBank's boards

The employee representatives on the Supervisory Board bring to their roles a range of experience and knowledge acquired over many years of working in positions of responsibility at apoBank. The representatives of the health care professions have held leading positions in the major organisations in the health care sector (such as associations, chambers and pension funds). Because of that, they have extensive knowledge in leading large organisations and with respect to the capital market and risk management. They also have many years of experience both from their service on the Supervisory Board of apoBank and on committees of other companies. In addition, Supervisory Board members receive targeted training on a regular or as-needed basis by both external and internal lecturers in specific bank management and legal issues.

The professional careers of the members of the Board of Directors are presented in detail on the apoBank website. Pursuant to Section 25c of the German Banking Act (KWG), the managing directors of an institution must be professionally competent for the management of an institution, suitably reliable and able to dedicate sufficient time to their responsibilities. Professional competence implies that the directors have sufficient theoretical and practical knowledge in the relevant businesses, as well as management experience. With the approval of the members of the Board of Directors, the responsible supervisory authority confirmed their professional competence and reliability.

(Diversity) strategy for the selection of the members of apoBank's boards, targets and relevant objectives of the strategy as well as level of target achievement

According to the legal requirements, the Supervisory Board must be configured such that its members collectively have the necessary knowledge, skills and professional experience for the proper performance of the required duties. With regard to its composition, the Supervisory Board has designated targets according to the company's specific situation that take into account the activities of the company, potential conflicts of interest and the number of independent Supervisory Board members. Another factor that is considered is the length of time each member has served on the Supervisory Board. The Supervisory Board has laid down in its rules of procedure that it shall comply with the legal requirements regarding the composition of the board and the suitability of its members. To achieve this goal, the Supervisory Board supports the Annual General Meeting in selecting appropriate members. In particular, it considers whether the candidates are able to make sufficient allowances for time in their schedules. In this context, in addition to the targets for the composition of the Supervisory Board, the board has also drawn up a set of guidelines as to what is required of the individual representatives of apoBank's members and of the board as a whole. Furthermore, an action plan was developed to achieve this objective.

The Supervisory Board has drawn up a requirement profile for the members of the Board of Directors, which makes reference to general experience, knowledge, expertise and training. In addition, personal characteristics and general guidelines must also be kept in mind when selecting candidates.

apoBank's diversity strategy is also based on legal regulations. According to these, the Supervisory Board sets targets for its composition that take diversity into account. The Supervisory Board has manifested the consideration of diversity in the Bank in its rules of procedure, especially with regard to the composition of the Supervisory Board. Under the premise that the desired professional expertise is represented as widely as possible on the board and that the Supervisory Board members' previous term of office is accounted for, the board encourages the representation of women. It thus takes account of the target specified for the proportion of women on the board. The targets and the achievement of the targets in terms of the proportion of women on the Supervisory Board and the Board of Directors can be found on page 29, in the section "Equal opportunities for men and women".

More information on corporate governance as well as details of the risk management objectives and risk policy can be found in the previous sections of the risk management report.

Forecast report

Outlook for the national economy and the health care market

Global growth remains dynamic

Forecasting for 2018 indicates a dynamism that is almost as strong as in the previous year. The economic upswing, which has recently been affecting the national economies of more and more countries, is thus expected to continue. A substantial contributing factor here is the economic recovery in the developing countries, although due to the elections in Mexico and Brazil in the current year as well as continued high levels of debt in China, there is a risk of downturn in those countries. However, there is little probability of an abrupt slowdown of growth in China due to the focus of its national policy on the maintenance of the growth trajectory. Additional factors indicating a continuation of the economic upswing are the fact that oil and other raw material-exporting countries are set to profit further from the continued recovery of commodity prices and moreover that growth in the industrial nations is expected to remain robust.

In the USA, last year's trend is set to continue, since private consumption is still strong owing to the gradual rise in the wage level and, in addition, investments typically pick up again in the late phase of an economic cycle. The US tax reform supports investment activities, although it is likely to create only limited growth stimulus. One of the reasons for this is that the USA has recently been experiencing a phase of high production capacity utilisation. However, the tax reform could accelerate inflation in the USA, which has only been moderate recently, and encourage the US Federal Reserve to pursue a tighter monetary policy, which would then have a dampening effect on the economic situation.

In the euro area, this dynamic growth is set to increase further in 2018, since investment activities continued to intensify in the second half of 2017.

German national economy set for further growth

The demand for German products is expected to remain high in 2018. The German economy benefits from several factors here. The positive performance of the global economy strengthens the demand for German exports. Further demand stimuli come from the German domestic economy, with the continued revitalisation of the labour market and the increase in wages among the already employed playing the largest roles here. In addition, the expansive monetary policy of the ECB stimulates economic growth. However, the growth opportunities of the German economy are limited by the increasing difficulties companies are experiencing in finding suitable employees due to high capacity utilisation and low unemployment. Nevertheless, the fact that investment rose sharply in the second half of 2017 shows that companies are undertaking important strategic decisions.

Only slow tightening of monetary policy in the euro area expected

In 2018 again, the ECB will continue its bond-purchasing programme. This was decided at its October meeting last year. The extension of the purchases is provisionally limited until September 2018. However, starting from January 2018, the ECB plans to reduce the volume of its purchases to €30 billion per month. An essential factor that will determine the continuation of the programme is the development of inflation in the euro area, which according to the ECB's projection should again be below 2.0% in 2018. In addition, the central bank will be keeping an eye on wage development in the currency area. Further increasing dynamism in wages in the European national economies would have a positive effect on inflation and the tightening of monetary policy. However, the ECB does not plan to raise the key interest rate until well after the end of the bond-purchasing programme. Thus, the key interest rate will probably remain at 0% for the entire year.

As a result, the interest rate gap between the euro area and the USA will continue to grow in the current year, since the US Federal Reserve will further tighten its monetary policy in 2018. According to projections by the members of the Federal Reserve Bank's monetary policy committee, the key interest rate is to be raised in three additional steps to a range of 2.0% to 2.25% by the end of 2018.

In 2018, geopolitical uncertainties remain. The tensions between the USA and the North Korean regime as well as the ever-recurring trade policy differences between China and the USA, which harbour protectionist risks, could have a negative impact on the development of the economy. In the euro area, it remains to be seen to what extent the elections in Italy in March will affect the debate over a reform of the monetary union, should euro-critical parties win the majority of the votes and form a government.

Dynamic changes continue in health care market

The trends described in the "Overall economic and industry-specific conditions" section starting on page 30 also apply in 2018 and will continue on the same course.

Due to factors including proposed legislation as well as advancing digitisation, the health care market is affected by increasing change. Digitisation continues to drive the interconnectedness, cooperation and concentration of health care service providers and contributes to the emergence of new, interdisciplinary and cross-sectoral care products and services. These new companies are not only interesting as employers for the next generation of medical professionals; they are also increasingly becoming investment targets for industrial health care companies and investors.

Cooperation and integration promote structural change

It is to be anticipated that the importance of new cooperative business and organisational forms will further increase in outpatient medicine. This is driven both by efforts to permanently improve quality as well as economic motives. The integration of outpatient, inpatient, rehabilitative and nursing care service providers will also intensify more and more. The structural change in the health care sector will continue – not only because of health policy developments, technological progress and digitisation, but also because the expectations of patients are changing.

Different trends in earnings situation of health care professionals

We expect the earnings situation for pharmacies in 2018 to be at around the same level as in the previous year. With regard to revenues and operating profit, the ongoing market differentiation is set to continue in future: Many smaller pharmacies with relatively low revenues will continue to face competition from the numerous high-revenue pharmacies. Overall, the number of pharmacies is likely to decrease further while the number of branches as well as high-performing branch networks will increase. The current environment for pharmacies, characterised by intense competition, increasing regulatory requirements as well as national and international influences on market development, will remain challenging in 2018. The discourse on the prohibition of mail-order sales will continue and the expert report on fees published by the Federal Ministry for Economic Affairs and Energy at the end of 2017 will lead to lively discussions.

As a result of fee negotiations for panel doctors, a pay rise for 2018 of approximately €1 billion was decided. This means that the total compensation of the statutory health insurance will increase moderately in 2018. Discussion persists with regard to the long-planned revision of the fee schedule for physicians (GOÄ). However, this has become less intense, particularly in the second half of 2017. It remains to be seen in 2018 what changes are still needed and when implementation might be expected. The GOÄ will likely be one of the main topics at the German Medical Assembly.

With regard to panel dentists, it can be assumed that the development of their earnings situation will remain stable. The fee income for prosthesis and other dental services which are negotiated regionally will probably rise moderately. In addition, beyond the scope of panel dental services, there will be growth opportunities for entrepreneurial dentists as the already high share of privately billable services continues to increase. The trend towards larger units (medical care centres/MVZ) and chains is clearly recognisable in the field of dentistry, as is the tendency towards salaried employment. The number of self-employed dentists continues to decline. It can be assumed that these trends will persist and that the number of dental medical care centres will see substantial further growth.

Demand for veterinary services will rise only moderately in future due to factors such as saturation effects among small animal practices and increasing concentration of livestock practices. Both should also be considered against the background of continuously deepening cost awareness among animal owners.

Inpatient medical care structures and health care companies

For medical innovations to continue in future despite the ever-stronger effects of economic and competitive factors, the number of cooperations and partnerships between outpatient and inpatient health care companies will grow.

Health care market continues to offer new opportunities

Overall, the health care market remains a growth market that will provide entrepreneurial health care professionals and health care companies with ongoing earnings and growth prospects in the future, too. Medical and technological progress as well as advancing digitisation will bring new possibilities for prevention, diagnosis and treatment, which will meet with corresponding demand due to demographic trends.

Banking sector continues to be affected by changes

In 2018, the banks will focus on fine-tuning their business models and further implementing their digitisation strategies. New technological opportunities in the financial industry are changing existing value chains, attracting new market participants and thus lead to even more intense competition. In addition, new laws such as the recent payment services directive or MiFID II are opening up the market to new providers.

The competition for customers and conditions is set to continue in 2018. The banks are thus pressing ahead with their cost reduction programmes. However, it will take more time to implement savings. It will therefore become all the more important for banks to find strategies that lead to a sustainable increase in earnings, such as a clear positioning regarding digital financial services or individual growth strategies.

An additional challenge for many banks is the necessary investment in their IT systems – on the one hand due to comprehensive regulatory data requirements and on the other because of increasing digitisation. Therefore, the priorities for many institutions are still to secure sustainable profitability and access to capital resources.

Positive stimuli are expected to result in 2018 from economic conditions that are favourable overall, even if there is still no noticeable sign of a turnaround with regard to the interest level. In addition, the banks must respond flexibly to the ongoing political uncertainty. So far, the negotiations regarding the withdrawal of the UK from the European Union have proceeded without major upheavals; however, many issues remain unresolved. The stance of the USA with regard to trade matters is also still unclear. Risks may also arise as a result of the conflicts between North Korea and the USA as well as in the Middle East. Negative developments could also increase volatility on the financial markets again in 2018.

Outlook on business performance

apoBank strategy geared towards growth

apoBank continues to develop its clearly defined business model in 2018. With our focus on the health care market, we offer a unique selling proposition in the banking sector. Our growth strategy in the business with health care professionals, their organisations and enterprises in the health care market remains effective. We are confident that we will continue to be successful even in a challenging market environment such as the one we are currently experiencing.

In the Retail Clients segment, our focus is on our modern branch network, which we are expanding selectively. In addition, we will further develop our advisory services.

We expect digitisation to provide new stimuli. For example, based on a systematic evaluation of data particularly at the interface to the health care market, we want to develop innovative, needs-based solutions that offer the customer added value. An important proviso here is the careful and transparent handling of our customers' data. In addition, we are expanding the options for digital access by linking up all channels of communication between the customer and the Bank. We will continue to work on the optimisation as well as extensive digitisation of processes and adapt these to changing customer needs. The new IT system, which we will migrate to in 2020, will be an important basis for this. In addition, we have started a project to speed up and digitise the Bank's entire lending process for the benefit of the customers. At the same time, we want to create room for manoeuvre for the increasingly complex business, for example in the area of medical care structures.

Growth in the customer business in a challenging environment

Planning for the current financial year at apoBank is based on our continuously growing customer business. This growth is supported by the expanding lending business both with retail and corporate clients.

In the Retail Clients segment, business start-up financing is a source of new stimuli. Rising customer numbers and higher customer penetration will also have a positive effect. In the Corporate Clients segment, we will be intensifying our marketing efforts with respect to companies in the health care market, hospitals, nursing care facilities and medical care structures. In addition, we want to approach more medical care businesses with outpatient care structures initiated by health care professionals. The aim of this is to further increase balance sheet loans and advances to customers. As a consequence, the balance sheet total will increase noticeably.

We also expect substantial growth in the commission-based business. Our focus here is on the development of the securities business and private asset management for retail clients and institutional customers. As well as providing new technological solutions, we will simplify and standardise the advisory processes in the investment business in order to increase the number of customer contacts. We will also expand our private banking offering in our branches and strengthen its focus on the securities business. In addition, we will step up the marketing of our asset management expertise.

We forecast the development of the key income statement items as follows:

The increased customer business that is likely to result from rising customer numbers and a higher volume of loans in the Retail Clients and Corporate Clients segments will contribute substantially to the performance of net interest income. In addition, this will be dependent on how the yield curve develops. Overall, we expect a substantial gain in net interest income for 2018.

The rising customer numbers will also have an impact on net commission income. We want to increase this significantly, primarily through expansion in the investment business and private asset management for our retail clients. Our goal here is to achieve a considerable increase in deposit volume. Additional contributions to profit will also be made through our commission-based business with institutional clients.

General administrative expenses will increase tangibly in 2018. In particular, investment in the planned IT migration will be responsible for this rise. Without taking account of the costs of the IT migration, the increase in operating expenses would only be marginal. Personnel expenses will rise slightly again in 2018 due to the collectively agreed increase in pay rates. The cost-income ratio is expected to rise slightly overall, due to investment in the new IT infrastructure. On balance, we therefore expect that operating income for 2018, or profit before risk provisioning, will be appreciably above that of 2017.

After positive risk provisioning for the operating business in the year under review, we anticipate that this will return to being approximately equivalent to standard risk costs in 2018 and thus in the mid-double-digit million range, which would not be comparable to 2017. We expect only slight value adjustments in the financial instruments item, likewise at the level of the standard risk costs.

Based on our planning, net profit in 2018 should stabilise at the 2017 level overall. This would allow us to further strengthen our capital position, albeit to a lesser extent than in 2017, and to distribute a stable dividend to our members.

Comfortable capital and liquidity situation

After starting out at a high level, we expect slightly declining regulatory capital ratios in 2018. The reason for the decrease is the substantial growth planned both in the Retail Clients and the Corporate Clients segment. Core capital will be strengthened through new members' capital contributions as well as reserves. apoBank's liquidity situation will remain comfortable, in all probability, since it is supported by a broadly diversified customer and investor base. The liquidity gap analysis is solid both on a long and short-term basis.

Opportunities and risk report

The main prerequisites for continuing to consolidate and expand our market position are the success of our customer advisory concept and acceptance among our customers. This means we have an opportunity to achieve our strategic objectives more quickly, in particular our growth strategy for our core business, and to hone our business profile. In addition, we are continually working towards improving customer satisfaction and, by doing so, increasing customer loyalty.

We are counteracting the downward market trend in the numbers of economically independent health care professionals by providing our specialised advisory services in an effort to reduce reservations about opening their own practice or branch. We also collaborate closely with the professional associations and work in regional networks to strengthen the integration of our range of advisory services and customer support. At the same time, we are continuing to expand the range of products and advisory services for salaried health care professionals and students.

Gradually adapting our range of services as digitisation advances opens up new access channels for our customers, which can have a positive impact on the earnings situation. Moreover, we expect higher customer loyalty and success in customer acquisition as a result of our investments in sales and our (digital) value-added services. We also hope to continue to improve our process efficiency in the long term thanks to digitisation. In addition, we want to open up new opportunities based on our business with corporate clients, whose number we plan to increase.

The Basel III reform is expected to have a markedly negative impact on apoBank's capital ratios starting from 2022. Due to the rise of the capital floor, our regulatory capital ratio will be reduced in the long run. Allowing for a transition period, the floor limits capital relief from the internal regulatory risk measurement models. It is possible that legislators will take measures to strengthen capital again in future. Moreover, new legal regulations, specifically in the area of consumer protection, will also lead to higher expenses. Legal practice regarding consumer protection has become increasingly unforeseeable in the past few years. In addition, the extremely low interest level is a burden on the banks' earnings situation – the longer this phase continues, the greater the burden. This can also have a negative impact on margin development in the lending business. Rising interest rates on the other hand would have a positive effect on the earnings situation of banks.

Added uncertainties arise from the opportunities and risks associated with the ongoing digitisation of the banking business and in particular of banking processes. Digitisation creates favourable market conditions for the entry of fintech enterprises, which offer services in high-tech areas of the banking business. The extent to which they will change the financial sector depends on how successful their services prove on the market. In any case, the increasing significance of the new IT financial enterprises should also result in a number of new business opportunities for the financial sector. However, another effect of digitisation is the increasing risk of cybercrime, which both fintechs and banks must protect themselves against. A main reason for this increased risk is that customers are increasingly conducting their banking transactions on mobile devices, which can sometimes be susceptible to unauthorised access by third parties.

Risks can also result from changes in the health care market. The financing requirements in the area of statutory health insurance will continue to represent a constraint on innovation for the part of the health care market that is financed by the solidarity-based system. The scarcity of physicians and other health care experts will further increase, while at the same time treatment and care needs will grow in an ageing society. The sustained trend towards salaried employment is leading to a declining number of self-employed health care professionals. Within the framework of so-called buy-and-build concepts (chains of medical care centers), health care corporations and financial investors are increasingly becoming providers in the areas of medicine, dental medicine, health care and rehabilitation. Overall however, apoBank is of the opinion that the opportunities outweigh the risks on the health care market.

Risks specific to apoBank could also arise from the migration of the IT systems to the new provider's system, planned for 2020. We have analysed these risks and taken corresponding measures to effectively counteract them.

Overall, the environment described above mainly holds opportunities for apoBank. This is assured by our business model and our specialisation in academic health care professionals, their organisations and companies in the health care market.

4

Annual Financial Statements

Balance Sheet

Assets

	(Notes)	31 Dec 2017 €	31 Dec 2016 €
1. Cash reserves		**1,909,145,961.51**	**1,126,237,063.62**
a) Cash on hand		31,308,944.96	38,059,336.57
b) Cash in central banks		1,877,837,016.55	1,088,177,727.05
Including: in the German Federal Bank (Bundesbank)		(1,877,837,016.55)	(1,088,177,727.05)
c) Cash in post office giro accounts		0.00	0.00
2. Debt instruments of public agencies and bills of exchange, eligible for refinancing with central banks		**0.00**	**0.00**
3. Loans and advances to banks	**(2, 13, 14, 17, 22, 26)**	**1,107,886,654.92**	**1,254,311,439.21**
a) Mortgage loans		0.00	0.00
b) Local authority loans		0.00	0.00
c) Other receivables		1,107,886,654.92	1,254,311,439.21
Including: due on demand		(703,196,658.05)	(765,004,649.03)
Including: lending against securities		(0.00)	(0.00)
4. Loans and advances to customers	**(2, 13, 14, 17, 22, 26, 47)**	**32,013,100,349.09**	**29,492,492,758.89**
a) Mortgage loans		8,870,572,606.07	7,823,707,179.29
b) Local authority loans		156,321,299.56	147,767,707.68
c) Other receivables		22,986,206,443.46	21,521,017,871.92
Including: lending against securities		(0.00)	(0.00)
5. Debt securities and other fixed-interest securities	**(3, 5, 14, 15, 16, 17, 19, 22, 26, 47)**	**4,526,835,971.26**	**5,026,467,186.07**
a) Money market instruments		233,238,649.05	305,058,147.81
aa) of public issuers		0.00	0.00
Including: acceptable as collateral by the Bundesbank		(0.00)	(0.00)
ab) of other issuers		233,238,649.05	305,058,147.81
Including: acceptable as collateral by the Bundesbank		(208,204,374.05)	(275,013,087.81)
b) Bonds and debt securities		4,271,259,207.11	4,695,593,637.02
ba) of public issuers		1,484,009,014.69	1,645,430,198.98
Including: acceptable as collateral by the Bundesbank		(1,463,880,813.86)	(1,624,015,222.88)
bb) of other issuers		2,787,250,192.42	3,050,163,438.04
Including: acceptable as collateral by the Bundesbank		(2,646,991,789.63)	(2,993,834,539.82)
c) Own debt securities		22,338,115.10	25,815,401.24
Nominal amount		(22,323,400.00)	(25,725,200.00)
6. Shares and other non-fixed-interest securities	**(3, 5, 16, 17, 18, 19, 22)**	**1,186,967,936.22**	**1,031,563,947.06**
6a. Trading assets	**(4, 16)**	**0.00**	**0.00**
7. Participating interests and capital shares in cooperatives	**(6, 14, 16, 20, 22, 30)**	**211,122,027.16**	**212,846,285.38**
a) Participations		210,949,979.77	212,674,837.99
Including: in banks		(174,845,243.34)	(174,845,243.34)
Including: in financial services institutions		(13,292,807.39)	(14,755,031.03)
b) Capital shares in cooperatives		172,047.39	171,447.39
Including: in cooperative banks		(0.00)	(0.00)
Including: in financial services institutions		(0.00)	(0.00)
8. Shares in affiliated companies	**(6, 14, 16, 20, 22, 30)**	**11,300,972.59**	**9,363,179.61**
Including: in banks		(0.00)	(0.00)
Including: in financial services institutions		(1,292,236.21)	(1,292,236.21)
9. Trust assets	**(21)**	**2,737,520.63**	**2,740,409.02**
Including: fiduciary loans		(0.00)	(2,888.39)
10. Compensation claims against the public sector including debt securities from their exchange		**0.00**	**0.00**
11. Intangible assets	**(8, 22)**	**15,430,851.00**	**7,861,680.00**
a) Internally-generated industrial and similar rights and assets		0.00	0.00
b) Concessions, industrial property rights and similar rights and assets acquired for a consideration, as well as licenses to such rights and assets		728,401.00	1,364,280.00
c) Goodwill		0.00	0.00
d) Payments in advance		14,702,450.00	6,497,400.00
12. Tangible assets	**(7, 22)**	**153,031,961.00**	**165,900,072.54**
13. Other assets	**(23)**	**219,542,498.72**	**264,936,519.49**
14. Prepayments and accrued income	**(24)**	**11,570,989.26**	**8,866,303.36**
a) from issuing and loan transactions		7,975,139.22	6,394,241.54
b) Others		3,595,850.04	2,472,061.82
15. Deferred tax assets	**(25)**	**0.00**	**0.00**
Total assets		41,368,673,693.36	38,603,586,844.25

Liabilities

	(Notes)	31 Dec 2017 €	31 Dec 2016 €
1. Liabilities to banks	**(9, 29, 30, 47)**	**8,104,944,381.13**	**6,930,120,019.45**
a) Registered mortgage Pfandbriefe issued		77,919,462.74	107,462,325.35
b) Registered public Pfandbriefe issued		0.00	0.00
c) Other liabilities		8,027,024,918.39	6,822,657,694.10
Including: due on demand		(101,567,015.77)	(118,935,906.70)
Including: mortgage Pfandbriefe and registered public Pfandbriefe delivered to the lender as collateral		(0.00)	(0.00)
2. Liabilities to customers	**(9, 29, 30, 47)**	**26,036,948,653.23**	**25,796,539,864.48**
a) Registered mortgage Pfandbriefe issued		1,509,409,316.63	1,435,875,033.55
b) Registered public Pfandbriefe issued		0.00	0.00
c) Savings deposits		90,891,378.98	93,314,807.87
ca) with an agreed notice period of three months		85,368,670.44	83,966,853.77
cb) with an agreed notice period of more than three months		5,522,708.54	9,347,954.10
d) Other liabilities		24,436,647,957.62	24,267,350,023.06
Including: due on demand		(21,312,587,291.32)	(19,352,749,137.74)
Including: mortgage Pfandbriefe and registered public Pfandbriefe delivered to the lender as collateral		(0.00)	(0.00)
3. Securitised liabilities	**(9, 29, 30, 47)**	**4,201,927,386.50**	**2,934,249,367.08**
a) Debt securities issued		4,201,927,386.50	2,934,249,367.08
aa) Mortgage Pfandbriefe		2,112,534,697.96	1,671,879,547.31
ab) Public Pfandbriefe		0.00	0.00
ac) Other debt securities		2,089,392,688.54	1,262,369,819.77
b) Other securitised liabilities		0.00	0.00
Including: money market instruments		(0.00)	(0.00)
Including: own acceptances and promissory notes outstanding		(0.00)	(0.00)
3a. Trading liabilities	**(4)**	**0.00**	**0.00**
4. Trust liabilities	**(31)**	**2,737,520.63**	**2,740,409.02**
Including: fiduciary loans		(0.00)	(2,888.39)
5. Other liabilities	**(9, 32)**	**82,958,530.18**	**68,299,858.00**
6. Prepayments and accrued income	**(33)**	**13,569,971.51**	**14,515,510.33**
a) from issuing and loan transactions		8,283,023.08	9,218,291.53
b) Others		5,286,948.43	5,297,218.80
6a. Deferred tax liabilities		**0.00**	**0.00**
7. Provisions	**(10)**	**403,795,389.11**	**414,730,485.38**
a) Provisions for pensions and similar obligations		197,187,765.96	180,265,941.49
b) Tax provisions		8,563,183.97	40,810,599.52
c) Other provisions		198,044,439.18	193,653,944.37
8. - - -		**0.00**	**0.00**
9. Subordinated liabilities	**(9, 30, 34)**	**116,924,849.47**	**136,221,234.13**
10. Participating certificate capital		**0.00**	**0.00**
Including: due within two years		(0.00)	(0.00)
11. Fund for general banking risks		**636,969,901.00**	**576,969,901.00**
Including: special items pursuant to Section 340e (4) of the HGB		(0.00)	(0.00)
11a. Special items from currency translation		**0.00**	**0.00**
12. Capital and reserves	**(35, 45, 51, 52)**	**1,767,897,110.60**	**1,729,200,195.38**
a) Subscribed capital		1.165.482.095,16	1,143,725,022.60
b) Capital reserves		0.00	0.00
c) Revenue reserves		540,491,249.19	524,491,249.19
ca) Legal reserves		410,750,000.00	402,750,000.00
cb) Other revenue reserves		129,741,249.19	121,741,249.19
d) Balance sheet profit		61,923,766.25	60,983,923.59
Total liabilities		**41,368,673,693.36**	**38,603,586,844.25**

1. Contingent liabilities	**(37)**	**561,163,356.61**	**498,317,841.48**
a) Contingent liabilities from rediscounted, settled bills		0.00	0.00
b) Liabilities from guarantees and indemnity agreements		561,163,356.61	498,317,841.48
c) Liabilities arising from the provision of collateral for third-party liabilities		0.00	0.00
2. Other obligations		**2,645,515,137.26**	**2,263,934,083.88**
a) Obligations under optional repurchasing agreements		0.00	0.00
b) Placement and underwriting obligations		0.00	0.00
c) Irrevocable loan commitments		2,645,515,137.26	2,263,934,083.88

Income Statement

Income statement

	(Notes)	1 Jan – 31 Dec 2017 €	1 Jan – 31 Dec 2016 €
1. Interest income from	**(39)**	**821,689,216.45**	**857,799,599.08**
a) lending and money market transactions		825,476,882.01	858,306,444.33
b) fixed-interest securities and debt register claims		– 3,787,665.56	– 506,845.25
2. Interest expenses	**(40)**	**– 231,304,132.95**	**– 248,675,863.96**
3. Current income from		**15,856,329.65**	**16,517,893.11**
a) shares and other non-fixed-interest securities		2,400,033.31	3,000,038.93
b) participating interests and capital shares in cooperatives		10,485,758.27	10,509,854.91
c) shares in affiliated companies		2,970,538.07	3,007,999.27
4. Income from profit pooling, profit transfer agreements and partial profit transfer agreements		**182,043.41**	**0.00**
5. Commission income	**(41)**	**256,179,240.04**	**214,169,310.94**
6. Commission expenses	**(41)**	**– 99,881,595.08**	**– 75,218,476.43**
7. Net trading revenues		**0.00**	**726,369.47**
8. Other operating income	**(42)**	**54,582,604.33**	**44,908,784.48**
Including: from discounting		(200,190.47)	(5,960.01)
9. - - -		**0.00**	**0.00**
10. General administrative expenses		**– 517,710,154.18**	**– 503,490,883.69**
a) Personnel expenses		– 266,546,416.16	– 272,791,649.76
aa) Wages and salaries		– 213,584,500.45	– 233,023,817.88
ab) Social security contributions and expenses for pensions and benefits		– 52,961,915.71	– 39,767,831.88
Including: for pensions		(– 21,250,939.40)	(–10,009,804.26)
b) Other administrative expenses		– 251,163,738.02	– 230,699,233.93
11. Depreciation, amortisation and write-downs in respect of intangible and tangible assets		**–12,419,525.05**	**–12,953,609.08**
12. Other operating expenses	**(42)**	**– 63,435,458.57**	**– 44,587,813.78**
Including: from discounting		(– 8,200,210.48)	(– 8,785,244.60)
13. Write-downs and value adjustments in respect of receivables and specific securities and allocations to provisions for credit risks		**– 35,718,209.29**	**– 48,805,108.59**
14. Income from write-ups in respect of receivables and specific securities and from the release of provisions for credit risks		**0.00**	**0.00**
15. Write-downs and value adjustments in respect of participating interests, shares in affiliates and securities treated as fixed assets		**0.00**	**0.00**
16. Income from write-ups in respect of participations, shares in affiliates and securities treated as fixed assets		**4,802,535.35**	**34,191,540.81**
17. Expenses from the assumption of losses		**0.00**	**– 6,182.98**
18. - - -		**0.00**	**0.00**
19. Operating surplus	**(56)**	**192,822,894.11**	**234,575,559.38**
20. Extraordinary income	**(43)**	**0.00**	**0.00**
21. Extraordinary expenses	**(43)**	**0.00**	**0.00**
22. Extraordinary result	**(43)**	**0.00**	**0.00**
23. Taxes on income	**(44)**	**– 70,418,007.25**	**– 98,492,255.89**
24. Other taxes not reported in item 12		**– 490,099.71**	**–108,834.39**
24a. Allocations to the fund for general banking risks		**60,000,000.00**	**75,000,000.00**
25. Net profit		**61,914,787.15**	**60,974,469.10**
26. Profit carried forward from the previous year		**8,979.10**	**9,454.49**
27. Withdrawals from revenue reserves		**0.00**	**0.00**
a) From legal reserves		0.00	0.00
b) From other revenue reserves		0.00	0.00
28. Allocations to revenue reserves		**0.00**	**0.00**
a) To legal reserves		0.00	0.00
b) To other revenue reserves		0.00	0.00
29. Balance sheet profit	**(45)**	**61,923,766.25**	**60,983,923.59**

Statement of Changes in Equity

Capital development

In the year under review, the amounts shown under liability item 12, ‘Capital and reserves’, developed as follows:

Capital development

	Subscribed capital		Capital reserves	Revenue reserves		Balance sheet profit/loss
	Members' capital contributions[1]	Contributions of silent partners		Legal reserves	Other revenue reserves	
	€thous	€thous	€thous	€thous	€thous	€thous
31 Dec 2016	1,143,725	0	0	402,750	121,741	60,984
Withdrawals	28,560	0	0	0	0	16,000
Additions	50,317	0	0	8,000	8,000	61,915
Distribution of annual result	0	0	0	0	0	44,975
31 Dec 2017	**1,165,482**	**0**	**0**	**410,750**	**129,741**	**61,924**

1) The changes in members’ capital contributions are composed of disposals due to (partial) termination, (partial) transfer, death or exclusion, as well as additions due to new memberships or participations.

Cash Flow Statement

Cash Flow Statement

	1 Dec 2017 €m	1 Dec 2016 €m
Result for the period (net profit/loss)	**61.9**	**61.0**
Write-downs, value adjustments and write-ups in respect of receivables and fixed assets	62.5	63.3
Increase/decrease in provisions	–10.9	–13.8
Other non-cash expenses/income	58.9	73.9
Profit/loss from the sale of fixed assets	– 6.3	– 26.0
Other adjustments (on balance)	– 0.6	– 0.4
Increase/decrease in loans and advances to banks	102.0	– 385.9
Increase/decrease in loans and advances to customers	–2,559.9	–1,648.8
Increase/decrease in securities (unless financial assets)	203.1	– 29.8
Increase/decrease in other assets from operating activities	– 7.2	14.2
Increase/decrease in liabilities to banks	1,183.8	– 278.6
Increase/decrease in liabilities to customers	251.4	2,219.8
Increase/decrease in securitised liabilities	1,266.2	197.1
Increase/decrease in other liabilities from operating activities	15.1	–12.9
Interest expenses/interest income	– 590.4	– 609.1
Current income from shares, non-fixed-interest securities, participating interests, capital shares in cooperatives and shares in affiliated companies	–15.9	–16.5
Expenses/income from extraordinary items	0.0	0.0
Income tax expense/income	70.4	98.5
Interest payments and dividend payments received	868.6	1,039.1
Interest paid	–185.0	– 202.9
Extraordinary deposits	0.0	0.0
Extraordinary payments	0.0	0.0
Income tax payments	– 81.3	– 77.1
Cash flow from operating activities	**686.4**	**465.1**
Deposits from the sale of financial assets	285.3	484.5
Payments for investments in financial assets	–145.9	– 850.3
Deposits from the sale of tangible assets	14.9	4.4
Payments for investments in tangible assets	– 7.2	– 5.2
Deposits from the sale of intangible assets	0.0	0.0
Payments for investments in intangible assets	– 8.3	– 7.8
Deposits from the sale of consolidated companies	0.0	0.0
Payments for additions to the scope of consolidation	0.0	0.0
Fund changes from other investment activities (on balance)	0.0	0.0
Deposits from extraordinary items	0.0	0.0
Payments for extraordinary items	0.0	0.0
Cash flow from investment activities	**138.8**	**– 374.4**
Payments from increases in equity capital by partners	50.3	52.7
Payments for decreases in equity capital to partners	– 28.6	– 32.6
Deposits from extraordinary items	0.0	0.0
Payments for extraordinary items	0.0	0.0
Dividends paid to partners	– 45.0	– 44.1
Fund changes from other capital (on balance)	–19.0	–19.0
Cash flow from financing activities	**– 42.3**	**– 43.0**
Cash changes in liquid assets	782.9	47.7
Changes to liquid assets due to foreign currency and valuation	0.0	0.0
Changes in liquid assets due to the scope of consolidation	0.0	0.0
Liquid funds at the start of the reporting period	1,126.2	1,078.5
Liquid funds at the end of the reporting period	**1,909.1**	**1,126.2**

Notes

A. General information

1. Framework for the preparation of the annual financial statements

The annual financial statements of Deutsche Apotheker- und Ärztebank eG (apoBank), Dusseldorf (Local Court of Dusseldorf, GnR 410), as at 31 December 2017 were prepared according to the regulations of the German Commercial Code (HGB), taking into account the amendments resulting from the German Accounting Directive Implementation Act (BilRUG), the Accounting Ordinance for Banks and Financial Services Institutions (RechKredV) as well as the Securities Trading Act (WpHG). At the same time, the annual financial statements meet the requirements of the Cooperative Societies Act (GenG), the German Pfandbrief Act (PfandBG) and the Articles of Association of apoBank.

Pursuant to Section 244 of the HGB, the annual financial statements are drawn up in German and in euros. apoBank takes advantage of the option to provide information through the notes rather than the balance sheet.

B. Accounting, valuation and translation methods

In preparing the balance sheet and income statement, the following accounting, valuation and translation methods were used.

2. Loans and advances and risk provisioning

Loans and advances to banks and customers were carried at nominal value or acquisition costs, with the difference between the higher nominal value and the amount disbursed being posted to accruals and deferred income. Identifiable credit risks in loans and advances to customers are covered by individual loan loss provisions. apoBank made a general value adjustment in respect of inherent credit risks with consideration given to tax guidelines.

3. Securities

Securities in the liquidity reserve were valued according to the strict lower-of-cost-or-market principle, while fixed-asset securities were valued according to the moderate lower-of-cost-or-market principle. The exchange or market prices provided by Bloomberg or Reuters were taken as a basis.

Acquisition costs for securities of the same type were calculated using the averaging method.

Structured financial instruments that show significantly higher or additional (distinct) opportunities or risks compared to the underlying instruments on account of the embedded derivatives are broken down into their individual components and reported and valued individually pursuant to relevant provisions. As a result, these instruments are recognised separately if unconditional or conditional purchase obligations exist for additional financial instruments.

The costs of acquisition of the separately reported capital and reserves components result from the breakdown of the costs of acquisition of the structured financial instruments in relation to the fair value of the individual components. In the event that the fair value of the embedded derivatives cannot be determined, the value is calculated as the difference between the fair value of the structured financial instrument and the fair value of the underlying instrument.

4. Trading assets

The criteria defined internally for including financial instruments in the trading portfolio are unchanged year on year.

5. Valuation units (hedge accounting)

At apoBank, micro-hedge units and portfolio valuation units are formed to hedge risks. Micro-hedge units are used in the context of asset swap packages and to cover part of the Bank's own issuances. This hedges against interest change risks. apoBank uses portfolio valuation units to hedge currency risks in various independently controlled portfolios.

In the case of the micro-hedge units, the effective portion of the valuation units formed is presented according to the cost method. For part of the portfolio valuation units, the fair value method is applied. A prospective and a retrospective effectiveness test is performed.

In micro-hedge units, apoBank concludes the prospective effectiveness test using the critical terms match method. Effectiveness is assumed if the essential value drivers for the hedged risks of the underlying transaction and the hedging instrument correspond with each other.

For micro-hedge units with underlying transactions on the asset side, market value changes of the underlying and the hedging transactions are determined and netted by comparison with the last reporting date. If there is an excess loss resulting from unhedged risks, a specific valuation allowance with respect to the underlying transaction is made in this amount.

For micro-hedge units with underlying transactions on the liability side, apoBank applies the fixed valuation as long as it is considered a perfect hedge. The own issuance is posted at the redemption value and is not valued. Accordingly, the hedging derivative is also not valued.

In portfolio hedges, the risks of multiple underlying transactions of the same type are covered by one or more hedging instruments. The underlying transactions are alike in terms of their appropriation (currency, maturity, coupon).

The portfolio valuation units concern FX forward transactions, FX swaps as well as syndicated loans in foreign currencies. A portfolio is formed for each currency and each underlying transaction in which the sums of the underlying transaction and the hedging transaction in terms of volume and all payment flows or changes in value are balanced as a rule. This way, a 100% effectiveness is, in principle, guaranteed. Any ineffectiveness that occurs over time is recognised in profit or loss as a provision for valuation units.

As at the balance sheet date, the total volume of the risks hedged amounted to €745 million (31 December 2016: €1,000 million). These risks result from an omitted depreciation of assets, an omitted appreciation of debt or omitted provisions for contingent losses and are quantified based on the gross net present values of the derivative transactions.

As at the reporting date, apoBank had designated 723 micro hedges with a nominal value of €10,751.2 million:

- 471 hedges on own issues against the interest rate risk with a nominal value of €6,651.5 million, including
  - 13 caps with a nominal value of €185.7 million
  - 15 floors with a nominal value of €195.7 million
  - 92 swaptions with a nominal value of €1,292.4 million
  - 351 swaps with a nominal value of €4,977.7 million
- 252 asset swaps to hedge against the interest rate risk of 154 acquired securities with a nominal value of €4,099.7 million

As at 31 December 2017, a volume of foreign currency swaps from FX trading was used in the amount of €186 million as valuation units, of which €142 million to hedge offsetting FX swaps and €44 million to hedge a loan denominated in a foreign currency.

The FX swaps can be broken down based on their currency as follows:
- €81 million in US dollars
- €80 million in British pounds
- €21 million in Japanese yen
- €4 million in other currencies

As at the reporting date, apoBank had a volume of FX forward transactions of €586 million as valuation units, of which €585 million to hedge offsetting FX forward transactions and €1 million to hedge interest payments on a loan denominated in a foreign currency. The FX forward transactions can be broken down based on their currency as follows:
- €236 million in US dollars
- €225 million in British pounds
- €3 million in Swiss francs
- €122 million in other currencies

6. Interests and shares in affiliated companies

Participating interests and capital shares in cooperatives and shares in affiliated companies were reported at cost of acquisition or the lower fair value. In the case of purchase transactions, acquisition costs comprise the purchase price plus directly attributable additional costs and, in the case of swaps, the application of general swap principles.

7. Fixed assets/tangible assets

Tangible assets were carried at cost of acquisition less scheduled depreciation.

Depreciation for buildings was carried out on a straight-line basis throughout the useful life or using declining-balance rates; movable assets were depreciated on a straight-line basis throughout the useful life. Low-value assets within the meaning of Section 6 (2) of the German Income Tax Act (EStG) were completely written off.

8. Fixed assets/intangible assets

Intangible assets were valued at cost of acquisition and depreciated on a straight-line basis. The underlying useful life is between three and five years.

9. Liabilities

All liabilities were generally carried at their repayment amounts. Differences between the lower issue price and the repayment amount of liabilities were reported under ‘Prepayments and accrued income’ and reversed on an accrual basis. Zero bonds and commercial papers were carried as liabilities at their issuance price plus accrued interest.

10. Provisions

The provisions for pension liabilities as at 31 December 2017 were calculated based on the actuarial tables ‘Richttafeln 2005 G’ (Heubeck) using the projected unit credit method on the basis of an interest rate of 3.68% (average over the past ten financial years), a wage increase trend of 3.00% and a pension increase trend of 1.75%. At 31 December 2017, the difference pursuant to Section 253 (6) of the HGB amounted to €23,833 thousand.

apoBank recorded the releases and allocations in the balance sheet items ‘Provisions for pensions and similar obligations’ in relation to the interest effect in other operating income and as a net item under ‘Personnel expenses’. Pension provisions and the provision for deferred compensation were netted with the corresponding plan assets (initially in item ‘Other assets’) at their fair value in the amount of €15,055 thousand pursuant to Section 246 (2) sentence 2 of the HGB. In this case, the fair value is equivalent to the acquisition costs.

The difference between income of €1,864 thousand and expenses of €1,191 thousand in connection with the reinsurance for pension obligations was netted with the expenses from the discounting of pension provisions amounting to €6,939 thousand.

The provisions for part-time retirement and anniversary payments were made on the basis of an interest rate of 3.68% and a wage increase trend of 3.00%.

Provisions with a remaining term of more than one year are discounted or compounded pursuant to Section 253 (2) of the HGB and posted at this amount (net method). The current profit/loss from discounting and compounding is posted to ‘Other operating income’ or ‘Other operating expenses’. The results from the change in the discount rate are taken into account in item ‘Personnel expenses’.

apoBank also made adequate provisions for other uncertain liabilities.

11. Derivative financial instruments

Derivative financial instruments are generally valued individually in accordance with the general valuation provisions of German commercial law (Sections 252 et seqq. of the HGB) and taking account of the realisation and imparity principle, unless valuation units are made to an acceptable extent in order to hedge balance sheet items or the derivatives are used for the control of the overall bank interest rate risk.

Provisions for contingent losses are recorded if apoBank anticipates a claim.

Pursuant to IDW RS HFA 22, apoBank treats separable embedded derivatives from structured financial instruments as primary derivatives.

Within overall bank control, apoBank generally uses all tradeable interest rate derivatives. They are used to hedge the interest rate risks in the banking book and manage net interest income.

Pursuant to IDW RS BFA 3, apoBank is required to provide proof of a loss-free valuation of interest rate-related banking book transactions. For all interest rate-related financial instruments (on-balance-sheet and off-balance-sheet) in the banking book, proof was provided that overall no losses will occur in future as a result of contracted interest rates. The test was based on the net present value/book value method, which compares the book values of the interest rate-related transactions of the banking book with the net present values attributable to interest rates, taking account of credit risk and portfolio management costs. As a result, apoBank did not identify any need for provisioning.

12. Currency translation

apoBank translates items based on amounts in foreign currency or which were originally based on foreign currency into euros as follows: Items denominated in foreign currencies are in principle valued pursuant to Section 340h in conjunction with Section 256a of the HGB. Valuation units are formed for material holdings in foreign currencies pursuant to Section 254 of the HGB.

apoBank considers the special coverage pursuant to Section 340h of the HGB as given when the total item is economically balanced in respect of every foreign currency as at the balance sheet date. If special coverage existed, income and expenditure from currency translation are shown in the income statement in items ‘Other operating income’ or ‘Other operating expenses’.

C. Notes to the balance sheet

Notes to assets

13. Breakdown of loans and advances by residual terms and other items

The receivables shown in the balance sheet have the following maturities:

Breakdown of loans and advances by residual terms

	Loans and advances to banks (A 3) €thous		Loans and advances to customers (A4) €thous	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Accrued interest	73,407	117,842	3,227	3,959
Up to 3 months	981,906	1,083,895	819,044	759,735
More than 3 months to 1 year	50,000	50,000	2,054,431	1,854,906
More than 1 year to 5 years	2,574	2,574	10,206,148	9,302,940
More than 5 years	0	0	17,165,223	15,955,434

Loans and advances to banks (assets, 3) include receivables from the relevant central cooperative bank (DZ BANK AG) of €613,133 thousand (31 December 2016: €609,749 thousand).

Loans and advances to customers (assets, 4) include receivables with unspecified maturities of €1,765,027 thousand (31 December 2016: €1,615,518 thousand).

14. Affiliated and associated companies

Loans and advances include the following amounts which are also loans and advances to affiliated or associated companies:

Affiliated and associated companies

	Loans and advances to banks (A3) €thous		Loans and advances to customers (A4) €thous		Debt securities and other fixed-interest securities (A5) €thous	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Loans and advances to affiliated companies	0	0	20	5	0	0
Loans and advances to associated companies	613,133	609,749	242,018	234,419	13,650	13,654

15. Debt securities and other fixed-interest securities

Of the debt securities and other fixed-interest securities (assets, 5) stated in the balance sheet, €501,169 thousand (31 December 2016: €548,187 thousand) will mature during the financial year following the balance sheet date. These amounts do not include accrued interest.

16. Non-negotiable, negotiable, quoted and unquoted securities as well as negotiable securities not valued at the lower of cost or market

The items ‘Debt securities and other fixed-interest securities’, ‘Shares and other non-fixed-interest securities’ and ‘Trading portfolio’ are comprised as follows:

Non-negotiable, negotiable, quoted and unquoted securities as well as negotiable securities not valued at the lower of cost or market

	Debt securities and other fixed-interest securities (A5) €thous		Shares and other non-fixed-interest securities (A6) €thous		Trading assets and liabilities (A6a) €thous	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Non-negotiable	0	0	1,186,968	1,031,564	0	0
Negotiable	4,526,836	5,026,467	0	0	0	0
Quoted	4,207,563	4,663,700	0	0	0	0
Unquoted	319,273	362,767	0	0	0	0
Negotiable securities not valued at the lower of cost or market	11,263	824,740	0	0		

	Participating interest and capital shares in cooperatives (A7) €thous		Shares in affiliated companies (A8) €thous	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Non-negotiable	211,007	212,731	11,301	9,363
Negotiable	115	115	0	0
Quoted	2	2	0	0
Unquoted	113	113	0	0

In inventory accounting, negotiable securities not valued at the lower of cost or market are held in separate custodian accounts or are marked accordingly.

17. Securities portfolio/receivables by purpose

The securities portfolio and selected receivables are divided by purpose into the following categories:

Securities portfolio/receivables by purpose

	31 Dec 2017 €thous	31 Dec 2016 €thous
Loans and advances to banks		
Fixed assets	2,584	2,584

	31 Dec 2017 €thous	31 Dec 2016 €thous
Loans and advances to customers		
Fixed assets	3,842	15,049

	31 Dec 2017 €thous	31 Dec 2016 €thous
Debt securities and other fixed-interest securities		
Fixed assets	3,868,743	4,006,882
Liquidity reserve	658,093	1,019,585
Total	**4,526,836**	**5,026,467**

	31 Dec 2017 €thous	31 Dec 2016 €thous
Shares and other non-fixed-interest securities		
Fixed assets	51,695	54,245
Liquidity reserve	1,135,273	977,319
Total	**1,186,968**	**1,031,564**

18. Shares in special investment funds

apoBank holds more than 10% of the shares in domestic investment funds in accordance with Section 1 (10) of the German Capital Investment Code (KAGB) or comparable international investments.

Shares in special investment funds

Name of fund	Investment objective	Value in accordance with Section 278 of the KAGB in conjunction with Section 168 of the KAGB or comparable international regulations €thous	Difference to book value €thous	Distributions made for the total financial year €thous	Restriction of daily redemption
APO 1 INKA	Domestic and international bonds	621,523	77,519	0	no
APO 2 INKA	Domestic and international bonds	245,126	28,469	0	no
APO 3 INKA	Domestic and international bonds	423,625	49,014	0	no
Master fund coinvestments	Domestic and international equities, domestic and international bonds, FX forward transactions, futures	48,168	4,082	0	no

19. Financial instruments classified as fixed assets

Financial instruments classified as fixed assets[1]

	Book value as at 31 Dec 2017 €thous	Fair value as at 31 Dec 2017 €thous	Omitted depreciation €thous
Banks	11,131	11,062	69
Public debtors	0	0	0
Companies	3,800	3,763	37
Total	**14,931**	**14,825**	**106**

1) Includes only financial instruments classified as fixed assets that showed hidden burdens at the balance sheet date.

Impairments made to these unstructured securities are not regarded as permanent if they can be attributed to increased market interest rates and a deterioration in market liquidity.

20. List of holdings

The following list includes the significant participations pursuant to Section 285 (11) of the HGB. Pursuant to Section 286 (3) of the HGB, the list does not include participations of minor importance for apoBank's earnings, asset and financial position.

List of holdings

Company	Share in company capital on 31 Dec 2017 %	Year	Capital and reserves of the company €thous	Result of the past financial year €thous
Apo Asset Management GmbH, Dusseldorf	70	2016	7,744	2,511
APO Beteiligungs-Holding GmbH, Dusseldorf	100	2017	4,163	0 (182)[1]
APO Data-Service GmbH, Dusseldorf[2]	100	2016	4,643	360
Kock & Voeste Existenzsicherung für die Heilberufe GmbH, Berlin[2]	26	2017	194	– 7
medisign GmbH, Dusseldorf[2]	50	2016	18	– 5
aik Immobilien-Investmentgesellschaft mbH, Dusseldorf	67	2016	10,067	2,655
aik Management GmbH, Dusseldorf[2]	100	2016	89	64
ARZ Haan AG, Haan/Rheinland	23	2016	36,860	4,034
CP Capital Partners AG, Zurich	24	2017	787	385
CredaRate Solutions GmbH, Cologne	13	2016	2,750	504
Deutsche Ärzte Finanz Beratungs- und Vermittlungs-Aktiengesellschaft, Cologne	25	2016	13,078	6,929
DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt	1	2016	10,256,000	323,000
DZR Deutsches Zahnärztliches Rechenzentrum GmbH, Stuttgart	16	2016	27,692	22,942
Finanz-Service GmbH der APO-Bank, Dusseldorf	50	2016	574	142
GAD Beteiligungs GmbH & Co. KG, Münster	5	2017	117,992	3,001
IWP Institut für Wirtschaft und Praxis Bicanski GmbH, Münster	26	2016	36	– 23
Konnektum GmbH, Dusseldorf	100	2016	147	– 50
PROFI Erste Projektfinanzierungs- und Beteiligungsgesellschaft AG, Zurich	24	2017	4,392	2,210
Treuhand Hannover GmbH Steuerberatungsgesellschaft, Hanover	26	2016	31,842	2,747
ZA Zahnärztliche Abrechnungsgesellschaft Düsseldorf AG, Dusseldorf	25	2016	6,810	1,512

1) Before profit transfer or loss absorption.
2) Indirect participations.

Participations in corporations with limited liability pursuant to Section 340a (4) of the HGB with more than 5% of voting rights existed with respect to Treuhand Hannover GmbH Steuerberatungsgesellschaft, Hanover, ARZ Haan AG, Haan/Rheinland, Deutsche Ärzte Finanz Beratungs- und Vermittlungs-Aktiengesellschaft, Cologne, and DZR Deutsches Zahnärztliches Rechenzentrum GmbH, Stuttgart.

21. Trust assets

The trust transactions shown on the assets side of the balance sheet are fiduciary loans totalling €0 thousand (31 December 2016: €3 thousand) and contributions held in trust totalling €2,738 thousand (31 December 2016: €2,737 thousand).

Trust assets comprise the following balance sheet items:

Balance sheet items

	31 Dec 2017	31 Dec 2016
	€thous	€thous
Loans and advances to banks	0	3
Participations	2,738	2,737
Total	**2,738**	**2,740**

apoBank holds in trust almost exclusively limited partnership shares for the holders of share certificates in various Medico funds.

22. Development of fixed assets

The item 'Tangible assets' (assets, 12) includes:

Tangible assets

	31 Dec 2017	31 Dec 2016
	€thous	€thous
Own land and buildings	114,205	128,037
Office furniture and equipment	37,977	36,807

Development of fixed assets

	Acquisition/ production costs as at 1 Jan 2017	Changes in the reporting period			Acquisition/ production costs as at 31 Dec 2017
		Additions	Disposals	Transfers	
	€thous	€thous	€thous	€thous	€thous
Intangible assets	56,074	8,263	0	0	64,337
Tangible assets					
Land and buildings	258,119	70	17,481	251	240,959
Office furniture and equipment	107,929	7,180	867	– 251	113,991
Loans and advances to banks	2,574	0	0	0	2,574
Loans and advances to customers	14,600	0	10,800	0	3,800
Fixed-asset securities	4,022,845	143,964	281,787	0	3,885,022
Participating interests and capital shares in cooperatives	213,344	1	1,463	0	211,882
Shares in affiliated companies	9,942	1,938	0	0	11,880
Total	**4,685,427**	**161,416**	**312,398**	**0**	**4,534,445**

Amortisation/ depreciation (accumulated) as at 1 Jan 2017	Amortisation/ depreciation	Write-ups	Changes in total amortisation/depreciation as a result of additions	disposals	transfers	Amortisation/ depreciation (accumulated) as at 31 Dec 2017	Book values at the balance sheet date
€thous	€thous	€thous	€thous	€thous	€thous	€thous	€thous
– 48,212	– 694	0	0	0	0	– 48,906	15,431
– 129,026	– 6,178	0	0	9,300	0	–125,904	115,055
– 71,122	– 5,548	0	0	656	0	– 76,014	37,977
0	0	0	0	0	0	0	2,574
0	0	0	0	0	0	0	3,800
– 393	– 646	1,925	–1,314	0	0	– 428	3,884,594
– 498	– 262	0	0	0	0	– 760	211,122
– 579	0	0	0	0	0	– 579	11,301
– 249,830	**–13,328**	**1,925**	**–1,314**	**9,956**	**0**	**– 252,591**	**4,281,854**

23. Other assets

The item 'Other assets' includes the following larger amounts:

Other assets

	31 Dec 2017 €thous	31 Dec 2016 €thous
Capitalised premiums from options and caps	147,975	210,178
Tax receivables	18,478	20,830
Including: corporation tax credit pursuant to Section 37 (5) of the German Corporation Tax Law (KStG)	(0)	(16,787)
Receivables from asset management	27,700	24,180
Receivables from margin payments	13,375	2,061

24. Prepayments and accrued income (assets)

The prepayments and accrued income items include discount amounts from assumed liabilities of €7,975 thousand (31 December 2016: €6,394 thousand) and upfront payments of €2,044 thousand (31 December 2016: €396 thousand).

25. Deferred tax assets

The option to capitalise deferred tax assets under Section 274 (1) sentence 2 of the HGB was not exercised.

As at 31 December 2017, a net deferred tax asset existed. This deferred tax asset was essentially due to differences between the valuations in the trading and tax accounts for shares and other non-fixed-interest securities, loans and advances to customers, provisions for pensions as well as intangible assets.

The net deferred tax assets amounted to €203,133 thousand, thereof deferred tax assets of €206,229 thousand and deferred tax liabilities of €3,096 thousand.

A tax rate of 31.3% was applied for calculating deferred taxes.

26. Subordinated assets

Subordinated assets are included in the following items:

Subordinated assets

	31 Dec 2017 €thous	31 Dec 2016 €thous
Loans and advances to banks	2,584	2,584
Loans and advances to customers	38,283	27,521
Debt securities and other fixed-interest securities	13,650	13,654
Total	**54,517**	**43,759**

27. Repurchase agreements

Repurchase agreements did not exist at the balance sheet date.

28. Foreign currency items

Assets include foreign currency items with a value of €327,889 thousand (31 December 2016: €266,399 thousand).

Notes to liabilities

29. Breakdown of liabilities by residual terms and other items

The liabilities shown in the balance sheet have the following maturities:

Breakdown of liabilities by residual term

	Liabilities to banks (P1) €thous		Saving deposits (P2c) €thous		Liabilities to customers without saving deposits (P2a, 2b, 2d) €thous		Securitised liabilities (P3) €thous	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Accrued interest	71,621	80,593	0	0	64,288	75,292	7,681	6,181
Up to 3 months	390,134	352,458	85,549	84,189	22,446,816	21,414,891	549,270	517,121
More than 3 months to 1 year	798,664	743,664	1,840	4,308	501,252	763,194	842,280	226,655
More than 1 year to 5 years	3,624,225	2,806,283	2,437	3,519	1,412,926	2,082,780	972,396	1,301,291
More than 5 years	3,220,301	2,947,122	1,066	1,299	1,520,774	1,367,068	1,830,300	883,000

Liabilities to banks include €31,179 thousand (31 December 2016: €34,776 thousand) of liabilities to the relevant central cooperative bank (DZ BANK AG).

Of the liabilities to banks, €6,986,318 thousand (31 December 2016: €6,263,538 thousand) are secured by transfer of assets. These liabilities are mainly publicly refinanced loans.

Further securities with a book value of €75,000 thousand (31 December 2016: €125,000 thousand) have been pledged as additional security for publicly refinanced loan programmes. Irrespective of an assigned liability, we deposited cash collaterals of €59,851 thousand (31 December 2016: €328,430 thousand) within the framework of our collateral management for interest rate derivatives. Moreover, securities with a book value of €318,877 thousand (31 December 2016: €334,644 thousand) were pledged as collateral for margin obligations at futures and options exchanges and to secure payment obligations from securities transactions.

Of the debt securities issued (liabilities, 3.a)), €1,390,639 thousand (31 December 2016: €742,832 thousand) will mature in the financial year following the balance sheet date.

30. Liabilities due from affiliated or associated companies

The liabilities due from affiliated or associated companies can be broken down as follows:

Liabilities due from affiliated or associated companies

	Liabilities to affiliated companies €thous		Liabilities to associated companies €thous	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Liabilities to banks (P1)	0	0	31,179	34,776
Liabilities to customers (P2)	16,567	15,376	51,674	57,057
Securitised liabilities (P3)	0	0	0	0
Subordinated liabilities (P9)	0	0	0	0

31. Trust liabilities

Trust liabilities are subdivided into the following balance sheet items:

Trust liabilities

	31 Dec 2017 €thous	31 Dec 2016 €thous
Liabilities to banks	0	3
Liabilities to customers	2,738	2,737
Total	**2,738**	**2,740**

apoBank holds in trust almost exclusively limited partnership shares for the holders of share certificates in various Medico funds.

32. Other liabilities

The item 'Other liabilities' includes the following larger amounts:

Other liabilities

	31 Dec 2017 €thous	31 Dec 2016 €thous
Premiums from options and caps carried as liabilities	24,176	29,497
Tax liabilities	11,740	8,316
Trade payables	16,594	7,101
Margin payments received	945	6,592

33. Prepayments and accrued income (liabilities)

'Prepayments and accrued income' (liabilities) include:

Prepayments and accrued income (liabilities)

	31 Dec 2017 €thous	31 Dec 2016 €thous
Premium from liabilities (securitised or unsecuritised)	2,035	1,834
Discount from claims	6,248	7,385
Other prepayments and accrued income	5,287	5,297

34. Subordinated liabilities

Expenses of €8,761 thousand were incurred in the past financial year (31 December 2016: €9,931 thousand). Early redemption of the subordinated liabilities is excluded.

Subordination has been arranged as follows: In the event of the insolvency or liquidation of apoBank, these liabilities are repayable only after all higher-ranking creditors have been satisfied. The liabilities, most of which are due for repayment by 2019, have a residual term of one to ten years.

Subordinated liabilities with a nominal value of €113,500 thousand (31 December 2016: €132,500 thousand) carry the following rates of interest:

- subordinated bearer bonds with a 6-month Euribor variable rate plus 1.00%
- subordinated promissory note bonds with fixed interest rates of 7.23% to 7.47%

As at the balance sheet date, borrowings exceeding 10% of the balance sheet item amounted to €15,000 thousand (31 December 2016: €15,000 thousand); they bear interest of 7.35% and are due on 15 July 2019.

35. Capital and reserves

The amounts shown under 'Subscribed capital' (liabilities, 12.a)) are structured as follows:

Subscribed capital

	31 Dec 2017 €thous	31 Dec 2016 €thous
Members' capital	**1,165,482**	**1,143,726**
Of remaining members	1,160,343	1,133,800
Of departing members	4,385	8,100
Of terminated cooperative shares	754	1,826
Compulsory contributions due on shares in arrears	2	2

The revenue reserves (liabilities, 12.c)) developed as follows in the past financial year:

Revenue reserves

	Legal reserves €thous	Other revenue reserves €thous
As at 1 Jan 2017	402,750	121,741
Transfers		
from balance sheet profit of the previous year	8,000	8,000
from net profit of the financial year	0	0
Withdrawals	0	0
As at 31 Dec 2017	**410,750**	**129,741**

36. Foreign currency items

Foreign currency items with an equivalent value of €283,419 thousand (31 December 2016: €252,490 thousand) are included in liabilities and with an equivalent value of €99,850 thousand (31 December 2016: €121,151 thousand) in off-balance-sheet contingent liabilities and other obligations.

37. Contingent liabilities

Acute risks of claims in connection with off-balance-sheet contingent liabilities and open loan commitments are covered by provisions. The liabilities shown mainly refer to contracts of guarantee or open loan commitments to customers. The risks were assessed in the context of an individual evaluation of the creditworthiness of these customers. They are subject to the risk identification and controlling procedures which apply to all loan agreements and guarantee a timely identification of the risks.

Derivative financial instruments

38. Derivative financial instruments

The volume of unsettled forward transactions affected by a settlement risk or currency, interest rate and/or other market risks arising from open positions, and in the event of counterparty default also from closed positions, amounted to €30,272 million as at 31 December 2017 (31 December 2016: €31,811 million). As at 31 December 2017, the following types of transactions were included therein:

Distribution of traded derivatives/types of transactions

Interest rate-related transactions

- Interest rate swaps
- Swaptions
- Caps/floors

Currency-related transactions

- FX forward transactions
- FX swaps

Stock-related transactions

- Stock options

apoBank enters into these forward transactions, which are subject to fluctuations as regards interest rates, exchange rates and market prices, for the purpose of hedging positions, for asset liability management as well as for strategic purposes within the scope of participation management. Existing derivatives contracts are broken down according to their risk structure in the table on the following page. The nominal volumes are stated in accordance with standard international practice; however, these figures are not the same as the default risk value.

apoBank calculated the fair values shown using the following valuation models: Interest rate swaps were measured at their net present value on the balance sheet date. The various interest payment flows were calculated with forward rates derived from the current interest structure curve and then discounted with the swap curve in the same way as fixed payment flows. Interest limit agreements are measured on the basis of the Bachelier model and, since 2017, swaptions have been measured on the basis of the Hull White model.

The change in the method used for the valuations of swaptions resulted in the following difference:

Effects of the change in method in the case of interest-based options

	Net present value according to the Hull White model	Net present value according to the modified Black Derman Toy model
	€m	€m
Swaptions	–164.1	–160.3

The fair value of the FX forward transactions and the FX swaps was calculated from the net present values of the opposing payment flows (in foreign currency and in euros) using the interest structure curve of the respective currency.

apoBank measures stock options from structured financial instruments by comparing them with unstructured bonds of the same issuer and the same terms. The difference between the two financial instruments corresponds to the implied value of the option.

Risk structure

		Nominal value €m		Fair value €m
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Interest rate-related transactions[1]				
Time to maturity up to 1 year	3,576	3,352	17	57
more than 1 year to 5 years	10,852	12,994	– 45	–18
more than 5 years	14,343	14,041	–152	– 246
Subtotal	**28,771**	**30,387**	**–180**	**– 207**
Currency-related transactions				
Time to maturity up to 1 year	1,443	1,330	1	1
more than 1 year to 5 years	55	91	0	0
more than 5 years	0	0	0	0
Subtotal	**1,498**	**1,421**	**1**	**1**
Stock-related transactions[1]				
Time to maturity up to 1 year	0	0	0	0
more than 1 year to 5 years	3	3	0	0
more than 5 years	0	0	0	0
Subtotal	**3**	**3**	**0**	**0**
Total	**30,272**	**31,811**	**–179**	**– 206**

1) Interest rate- and stock-related transactions are reported under the items ‘Other assets’ (€148.0 million), ‘Prepayments and accrued income (assets)’ (€2.0 million) as well as under the items ‘Other liabilities’ (€2.5 million) and ‘Prepayments and accrued income (liabilities)’ (€5.2 million).

The vast majority of the derivative financial instruments are used to hedge interest rate or currency fluctuations as part of valuation units (see note 5) as well as within the scope of asset liability management.

D. Notes to the income statement

39. Interest income

The item 'Interest income' includes €8,636 thousand (31 December 2016: €5,785 thousand; previous year's figure adjusted) in negative interest income from deposits with the ECB and other banks, from collateral management as well as from fixed-interest securities.

This item also includes material income related to other periods of €16,078 thousand for prepayment penalties (31 December 2016: €18,905 thousand).

40. Interest expenses

The item 'Interest expenses' includes €10,610 thousand (31 December 2016: €3,661 thousand) in positive interest expenses from borrowings from other banks and specific customer groups, from collateral management as well as from securitised liabilities.

41. Commission income and commission expenses

Commission income includes insurance brokerage services rendered for third parties amounting to €18,768 thousand (31 December 2016: €18,190 thousand). In addition, this item includes income from the securities business of €2,791 thousand related to other periods.

Commission expenses include expenses related to other periods of €2,907 thousand from the securities business.

42. Other operating income and expenses or income and expenses related to other periods

Other operating income of €54,583 thousand (31 December 2016: €44,909 thousand) includes, among other things:

Other operating income

	31 Dec 2017 €thous	31 Dec 2016 €thous
Rental income	4,432	4,259
Release of reserves (related to other periods)	34,627	29,228
Accounting gains from the disposal of fixed assets and intangible assets (related to other periods)	6,470	1,717
Interest income from tax refunds (related to other periods)	131	0
Income from discounting	200	6
Income from currency translation	1,912	2,698

Other operating expenses of €63,435 thousand (31 December 2016: €44,588 thousand) result primarily from the following items:

Other operating expenses

	31 Dec 2017 €thous	31 Dec 2016 €thous
Provisions for litigation costs[1]	15,820	12,474
Accounting losses from the disposal of fixed assets and intangible assets (related to other periods)	27	2
Interest expenses from tax arrears (related to other periods)	119	2,966
Provisions for compensation claims	19,040	0
Provisions for derivatives valued separately	11,425	8,478
Expenses from compounding	8,200	8,785
Expenses from currency translation	467	1

1) Litigation risks include €8.4 million for apoBank's legal risks from possible claims to the revocation of loans.

43. Extraordinary income and expenses

As in the previous year, no extraordinary income or extraordinary expenses were incurred in 2017.

44. Taxes on income

Income taxes are related exclusively to the profit from ordinary business activities of the current period and to the results of tax audits of the previous years. Taxes on income were calculated largely on the basis of actual figures and the current tax rate.

The item 'Taxes on income' includes other material income related to other periods of €268 thousand from tax refunds for previous years (31 December 2016: €2,651 thousand), and expenses related to other periods of €279 thousand from tax arrears for previous years (31 December 2016: €18,746 thousand).

45. Proposal for the appropriation of balance sheet profit

In 2017, apoBank recorded a net profit of €61,914,787 thousand; the profit carried forward from the previous year amounted to €8,979 thousand. The Supervisory Board and Board of Directors will propose the following appropriation of profit at the Annual General Meeting:

Appropriation of balance sheet profit

	31 Dec 2017 €	31 Dec 2016 €
Net profit	61,914,787.15	60,974,469.10
Profit carried forward from the previous year	8,979.10	9,454.49
Balance sheet profit	61,923,766.25	60,983,923.59
Allocations to legal reserves	8,000,000.00	8,000,000.00
Allocations to other revenue reserves	8,000,000.00	8,000,000.00
Dividends (4%)	45,914,245.70	44,974,944.49
Carried forward to new account	9,520.55	8,979.10

E. Other notes

46. Events after the reporting date

No events took place that were subject to reporting requirements between 31 December 2017 and 16 March 2018 when the Annual Financial Statements were prepared by the Board of Directors.

47. Disclosures according to Section 28 of the PfandBG

The following information is provided with respect to the mortgage Pfandbriefe included in the items 'Liabilities to banks', 'Liabilities to customers' and 'Securitised liabilities' pursuant to Section 28 of the PfandBG:

Total amount and maturity structure

	Total amount of outstanding Pfandbriefe €m		Total amount of cover pool €m		Overcollateralisation %	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Nominal value	3,674	3,190	5,315	4,522	45	42
Net present value	3,749	3,341	5,825	5,087	55	52
Risk net present value[1]	3,883	3,390	5,968	5,151	54	52

	Maturity structure of outstanding Pfandbriefe €m		Maturity profile of cover pool €m	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Up to 6 months	324	55	263	189
More than 6 months to 12 months	112	40	323	207
More than 12 months to 18 months	410	324	254	218
More than 18 months to 2 years	5	119	222	236
More than 2 years to 3 years	85	415	496	406
More than 3 years to 4 years	560	85	535	430
More than 4 years to 5 years	45	566	529	429
More than 5 years to 10 years	1,268	805	2,138	1,911
More than 10 years	865	781	555	496

1) The risk net present value is calculated on the basis of the dynamic method pursuant to the Pfandbrief Net Present Value Regulation (PfandBarwertV).

The cover pool comprises no derivatives.

Composition of the cover pool

Total amount of receivables used as cover	€m 31 Dec 2017	€m 31 Dec 2016	Share in the total amount of cover pool 31 Dec 2017	% 31 Dec 2016
By size class				
Up to €300 thousand	3,921	3,514	– – –	– – –
More than €300 thousand to €1 million	501	429	– – –	– – –
More than €1 million to €10 million	495	336	– – –	– – –
More than €10 million	223	126	– – –	– – –
By type of use (I) in Germany				
Residential	4,050	3,595	– – –	– – –
Commercial	1,090	810	– – –	– – –
By type of use (II) in Germany				
Flats	1,197	1,032	23	24
Single- and two-family homes	2,384	2,164	46	49
Multi-family homes	469	399	9	9
Office buildings	87	184	2	4
Retail buildings	4	0	0	0
Industrial buildings	0	0	0	0
Other commercially used buildings	999	626	20	14
Unfinished new buildings not yet ready to generate a return as well as building sites	0	0	0	0
Of which: building sites	0	0	0	0

There are no mortgage cover assets outside Germany.

Summary of overdue claims

	31 Dec 2017 €m	31 Dec 2016 €m
Total amount of claims being more than 90 days past due	0	0
Total amount of the impaired receivables, provided that the respective arrears amount to at least 5% of the receivable	0	0

Other notes

	Residential		Commercial	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Number of pending forced auctions and forced administrations	0	0	0	0
Number of forced auctions carried out in the fiscal year	0	0	0	0
Number of real estate taken over in the fiscal year to prevent losses	0	0	0	0
Total amount of overdue interest payments in €m	0	0	0	0

48. Cover statement mortgage Pfandbriefe

Cover statement mortgage Pfandbriefe

	31 Dec 2017 €thous	31 Dec 2016 €thous
Loans and advances to customers		
Mortgage loans	5,139,597	4,404,578
Tangible fixed assets (land charges on the Bank's own property)	0	0
Debt securities and other fixed-interest securities (book value as at 31 Dec 2017: €175,068 thousand, 31 Dec 2016: €125,000 thousand)	175,000	117,750[1]
Total cover assets	5,314,597	4,552,328
Total mortgage Pfandbriefe requiring cover	3,673,900	3,190,400
Overcollateralisation	1,640,697	1,331,928

1) Until 2016, apoBank factored in an internal security discount of 10 % of the nominal value when calculating the cover.

49. Other financial obligations

Other financial obligations amounted among others to €118,020 thousand at the end of 2017 (31 December 2016: €118,020 thousand) and result from an optional obligation to purchase shares in a company within the scope of the lending business. This obligation does not currently pose a risk.

apoBank is a member of the protection scheme with a guarantee fund and a guarantee network operated by the National Association of German Cooperative Banks (Deutsche Volksbanken und Raiffeisenbanken e. V.; BVR). Within the scope of the guarantee network, apoBank has assumed a guarantee obligation that amounted to €30,543 thousand as at the end of the past financial year (31 December 2016: €29,468 thousand).

A premium guarantee in favour of BVR Institutssicherung GmbH (BVR-ISG) is also in force. This relates to annual contributions to reach the target level and payment obligations, special contributions and special payments in the event that the available cash funds are not sufficient to compensate the depositors of a CRR bank belonging to a bank-related protection scheme as well as replenishment obligations pursuant to cover measures.

50. Average number of employees

The average number of employees in 2017 was 2,111 (2016: 2,142) full-time and 452 (2016: 447) part-time employees. In addition, apoBank also employed an average of 98 apprentices (2016: 116).

51. Changes in membership

Changes in membership

	Number of members	Number of cooperative shares	Uncalled liabilities €thous
Beginning of 2017	109,680	755,899	1,133,849
Additions 2017	3,864	33,546	50,319
Departures 2017	2,050	15,850	23,775
End of 2017	111,494	773,595	1,160,393

52. Capital contributions and uncalled liabilities of members

Capital contributions and uncalled liabilities of members

	31 Dec 2017 €thous	31 Dec 2016 €thous
The capital contributions of the remaining members increased in the year under review by	26,543	24,446
Uncalled liabilities increased in the year under review by	26,544	24,449

The value of the company share and the value of the uncalled liabilities amount to €1,500 each.

53. Auditors' fee

The expenses for the audit of the annual financial statements, other certification services, tax advice and other services of the auditor, GV (Genossenschaftsverband - Verband der Regionen e.V.), were €1,493 thousand in the year under review (31 December 2016: €1,487 thousand).

The expenses can be broken down as follows:

Auditors' fee

	2017 €thous	2016 €thous
Audit of the annual financial statements	1,183[1]	1,208[2]
Other assurance services	131[3]	55[4]
Tax advice	0	0
Other services	179	224

1) Of which release of reserves 2016: €78 thousand.
2) Of which release of reserves 2015: €54 thousand.
3) Of which release of reserves 2016: €5 thousand.
4) Of which release of reserves 2015: €248 thousand.

54. Remuneration of Board members

According to Section 285 sentence 1 no. 9a of the HGB, the total remuneration granted to the Board of Directors amounted to €6,409 thousand in 2017 (2016: €5,772 thousand); the performance-related share of this total remuneration was 42.2% (2016: 47.7%). The total remuneration paid to Board members in 2017 amounted to €5,917 thousand (2016: €4,868 thousand).

According to the remuneration structure for members of the Board of Directors agreed upon by the Board of Directors and the Supervisory Board, variable remuneration is paid to Board members on top of the basic salary. This amounts to 35.0% of the aggregate salary if all goals are achieved. If the agreed goals are exceeded or not met, the variable payment for the year is increased or decreased accordingly. However, if the results fall short of the goals by more than 50%, no variable remuneration will be paid, and if the goals are exceeded by more than 50%, the variable remuneration will not increase.

A remuneration structure that takes account of the legal and regulatory requirements – in particular the provisions of the German Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems (InstitutsVergV) – has been agreed upon.

The total remuneration for former members of the Board of Directors and their surviving dependants amounted to €2,306 thousand (2016: €2,206 thousand). Pension provisions for this group of persons as at 31 December 2017 amounted to €35,073 thousand (2016: €23,149 thousand).

The total remuneration for members of the Supervisory Board was €1,083 thousand (2016: €1,136 thousand), which was divided up as follows: annual remuneration €683 thousand (2016: €644 thousand) and attendance fees €400 thousand (2016: €492 thousand).

55. Amounts due from Board members

On the balance sheet date, amounts due from Board members were as follows:

Amounts due from Board members

	31 Dec 2017	31 Dec 2016
	€thous	€thous
Members of the Board of Directors	93	114
Members of the Supervisory Board	5,308	5,724

56. Additional notes pursuant to Section 26a of the German Banking Act (KWG) and the breakdown of income by geographic markets

Deutsche Apotheker- und Ärztebank eG, 40547 Dusseldorf, Germany

The purpose of the cooperative is the economic promotion and support of its members and especially members of the health care professions, their organisations and associations. Its business includes carrying out transactions customary in banking within the framework of legal provisions for members as well as non-members. The head office, the branches and the advisory offices of Deutsche Apotheker- und Ärztebank are all located in Germany.

Revenue of €753.9 million resulted from the profit from ordinary business activities, excluding risk provisioning and general administrative expenses. Deutsche Apotheker- und Ärztebank's profit from ordinary business activities amounted to €192.8 million based on HGB accounting.

The average number of employees (excluding members of the Board of Directors) in 2017 was 2,563.

The profit before tax of €192.8 million as at 31 December 2017 was largely generated in Germany. Taxes on income relating to this amount came to €70.4 million.

apoBank does not receive any public aid.

57. Additional notes pursuant to Article 434 (2) of the Capital Requirements Regulation (CRR)

Some of the disclosures required pursuant to Part 8 of the CRR (Articles 435 to 455) are included in the management report. apoBank publishes the remaining disclosures and its remuneration report in a separate disclosure report simultaneously on its website.

58. Board of Directors

Members of the Board of Directors
- Herbert Pfennig (until 31 August 2017), Chairman
- Ulrich Sommer, Chairman (since 1 September 2017), Deputy Chairman (until 31 August 2017)
- Dr. Thomas Siekmann, Deputy Chairman (since 1 September 2017)
- Olaf Klose
- Eckhard Lüdering
- Holger Wessling

59. Supervisory Board

Members of the Supervisory Board
- Hermann Stefan Keller (until 30 June 2017), Chairman, pharmacist
- Prof. Dr. med. Frank Ulrich Montgomery, Chairman (since 30 June 2017), physician
- Wolfgang Häck[1], Deputy Chairman, bank employee
- Ralf Baumann[1], bank employee
- Fritz Becker, pharmacist
- Marcus Bodden[1], bank employee
- Martina Burkard[1], bank employee
- Mechthild Coordt[1], bank employee
- Dr. med. dent. Peter Engel, dentist
- Sven Franke1, bank employee
- Dr. med. Andreas Gassen, physician
- Dr. med. Torsten Hemker, physician
- Steffen Kalkbrenner[2] (since 30 March 2017), bank employee
- Walter Kollbach, tax consultant/auditor
- Dr. med. dent. Helmut Pfeffer, dentist
- Robert Piasta[1], bank employee
- Dr. med. dent. Karl-Georg Pochhammer, dentist
- Christian Scherer[1], bank employee
- Friedemann Schmidt, pharmacist
- Ute Szameitat[2] (until 28 February 2017), bank employee
- Susanne Wegner (since 30 June 2017), business owner
- Björn Wißuwa[1], trade union secretary

1) Employee representative.
2) Representative of the executive staff.

60. Seats on supervisory boards held by members of the Board of Directors and employees

In 2017, members of the Board of Directors and employees of the Bank held seats on the supervisory boards or comparable boards of the following joint-stock companies pursuant to Section 267 (3) of the HGB or comparable organisations:

Name	Company	Function
Herbert Pfennig	DFV Deutsche Familienversicherung AG, Frankfurt	Member of the Supervisory Board
	MAINFIRST BANK AG, Frankfurt	Member of the Supervisory Board, since 6 June 2017, Chairman of the Supervisory Board, since 27 June 2017
Ulrich Sommer	aik Immobilien-Investmentgesellschaft mbH, Dusseldorf	1st Deputy Chairman of the Supervisory Board
	Apo Asset Management GmbH, Dusseldorf	Deputy Chairman of the Supervisory Board, since 1 January 2017
	Internationale Kapitalanlagegesellschaft mbH, Dusseldorf	Member of the Supervisory Board
	Deutsche Ärzteversicherung AG, Cologne	Member of the Supervisory Board
Eckhard Lüdering	APO Data-Service GmbH, Dusseldorf	Chairman of the Supervisory Board
	CP Capital Partners AG, Zurich	Member of the Administrative Board
	GAD Beteiligungs GmbH & Co. KG, Münster	Member of the Supervisory Board, until 2 October 2017
	PROFI Erste Projektfinanzierungs- und Beteiligungsgesellschaft AG, Zurich	Member of the Administrative Board
	Treuhand Hannover GmbH Steuerberatungsgesellschaft, Hanover	Member of the Supervisory Board, Deputy Chairman of the Supervisory Board, since 18 January 2017
Olaf Klose	Apo Asset Management GmbH, Dusseldorf	Member of the Supervisory Board
	Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall	Member of the Supervisory Board, since 4 July 2017
	Deutsche Ärzte Finanz Beratungs- und Vermittlungs-AG, Cologne	Deputy Chairman of the Supervisory Board
	Finanz-Service GmbH der APO-Bank, Dusseldorf	Deputy Chairman of the Supervisory Board, since 1 January 2017
Dr. Thomas Siekmann	ZA Zahnärztliche Abrechnungsgesellschaft Dusseldorf Aktiengesellschaft, Dusseldorf	Member of the Supervisory Board

Mirko Engels	aik Immobilien-Investmentgesellschaft mbH, Dusseldorf	Member of the Supervisory Board
Steffen Kalkbrenner	ARZ Haan AG, Haan	Member of the Supervisory Board, Deputy Chairman of the Supervisory Board, since 9 November 2017
	APO Data-Service GmbH, Dusseldorf	Member of the Supervisory Board, since 20 November 2017
Dr. Lars Knohl	APO Data-Service GmbH, Dusseldorf	Member of the Supervisory Board, until 31 October 2017
Dr. Hanno Kühn	aik Immobilien-Investmentgesellschaft mbH, Dusseldorf	Member of the Supervisory Board
André Müller	Apo Asset Management GmbH, Dusseldorf	Member of the Supervisory Board
	APO Data-Service GmbH, Dusseldorf	Member of the Supervisory Board
Carsten Padrok	Finanz-Service GmbH der APO-Bank, Dusseldorf	Member of the Supervisory Board, since 1 January 2017
Peter Schlögell	Apotheken-Rechen-Zentrum GmbH, Darmstadt	Chairman of the Administrative Board
Dr. Barbara Schwoerer	APO Data-Service GmbH, Dusseldorf	Deputy Chairman of the Supervisory Board, until 31 October 2017
	ARZ Haan AG, Haan	Deputy Chairman of the Supervisory Board, until 31 October 2017

61. Name and address of the responsible auditing association

Genossenschaftsverband – Verband der Regionen e.V.
Peter-Müller-Str. 26
40468 Dusseldorf
Germany

Dusseldorf, 16 March 2018
Deutsche Apotheker- und Ärztebank eG
The Board of Directors

Ulrich Sommer | Dr. Thomas Siekmann

Olaf Klose | Eckhard Lüdering | Holger Wessling

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Certifications

Report of the Independent Auditor

Report on the audit of the annual financial statements and the management report

Audit opinions

We have audited the annual financial statements of Deutsche Apotheker- und Ärztebank eG, Dusseldorf (hereinafter referred to as the “Cooperative”), comprising the balance sheet as at 31 December 2017, the income statement, the cash flow statement and the statement of changes in equity for the fiscal year from 1 January to 31 December 2017 and the notes to the financial statements, including the accounting and measurement methods. We also audited the management report of the Cooperative for the fiscal year from 1 January to 31 December 2017. We did not audit the components of the management report referred to in the “Other information” section of the management report in accordance with German legal requirements.

According to the findings we gathered within the scope of our audit

- the attached annual financial statements comply with German commercial law requirements applying to cooperative banks in all key aspects and, in consideration of the German generally accepted accounting principles, give a true and fair view of the net assets and financial position of the Cooperative as of December 31, 2017 as well as of the results of operations for the fiscal year from 1 January to 31 December 2017, and
- the attached management report gives a true and fair reflection of the Cooperative’s position. This management report is consistent with the annual financial statements in all key aspects, complies with German legal requirements and gives a true and fair view of the opportunities and risks associated with future development. Our audit opinion on the management report does not cover the content of the parts of the management report referred to in the “Other information” section.

We declare in accordance with Section 322 (3) Clause 1 of the HGB that our audit did not lead to any objections against the orderliness of the annual financial statements and the management report.

Basis for the audit opinions

We conducted our audit of the annual financial statements and the management report in accordance with Section 53 (2) of the Cooperative Societies Act (GenG), with Sections 340k and 317 of the HGB and with the European Union Auditing Regulation (No. 537/2014, hereinafter referred to as EU AR) in consideration of the German principles of proper auditing of financial statements as promulgated by the Institute of Public Auditors in Germany (IDW). Our responsibilities under these provisions and principles are defined in further detail in the section entitled “Responsibility of the auditor in auditing the annual financial statements and the management report” of our auditor’s report. We are independent of the Cooperative in accordance with European law and the German commercial law and provisions governing the auditing profession and have complied with all other professional duties valid in Germany in accordance with these requirements. In addition, in accordance with Article 10 (2) (f) EU AR in conjunction with Sections 55 (2) and 38 (1a) GenG, we declare that we have not provided non-audit services prohibited under Article 5 (1) EU AR. We believe that the audit evidence we gathered is sufficient and suitable to serve as a basis for our audit opinions on the annual financial statements and the management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are matters we considered to be the most important in the audit of the annual financial statements in the fiscal year from 1 January to 31 December 2017. These matters were taken into account in relation to our audit of the annual financial statements as a whole and in the formation of our audit opinion; we do not issue any separate audit opinions on these matters.

We present what we consider to be the key audit matters below:

1. Measurement of other provisions
2. Measurement of loans and advances to customers

We structured our presentation of key audit matters as follows:

a) Matter and issue at hand
b) Audit procedures and findings
c) Reference to further information

1.a)

As a credit institution, the Cooperative is exposed to various risks. The recognition and measurement of provisions, and particularly those for litigation risks and costs, transaction bonuses, restructuring measures and other uncertain liabilities are subject to estimates, forecasts and assumptions made by the legal representatives. For this reason and also due to the volume of these items, we believed that these matters constituted key audit matters in the audit of the Cooperative's annual financial statements.

1.b)

We initially reviewed whether the bank's systems and processes for the measurement of other provisions are designed to identify the need for provisions with a sufficient degree of assurance within due time and also whether provisions are formed in the proper amount.

We then verified the functionality of the regulations and processes by auditing individual cases. This audit process was based on the relevant controls put in place by the bank.

We also conducted analytical audit procedures. In this context, the bank's database was assessed according to predefined audit criteria.

Based on the results of this assessment, we then reviewed certain individual cases with regard to the need for and, if applicable, the appropriateness of the formation of provisions.

1.c)

Further disclosures from the bank on the recognition and accounting of other provisions are included in notes 10 and 42 in the notes to the annual financial statements.

2.a)
Loans and advances to customers amount to €32.0 billion when netted with risk provisions; this accounts for 77.4% of the balance sheet total. In addition, contingent liabilities exist in the amount of EUR 0.6 billion.

The identification of impairments and calculation of specific allowances as well as the measurement of provisions for contingent liabilities, are subject to significant estimation uncertainty and scope of discretion. The risk for the annual financial statements is that the need for impairment is not recognised in time or rather the amount of the impairment is influenced by the economic situation and development of the respective borrower as well as the measurement of the collateral. As a result, it is essential for the annual financial statements and in particular the earnings situation that loans and advances to customers and contingent liabilities, in particular in commercial lending business, are correctly measured and we believe that this constitutes a key audit matter.

2.b)
We initially reviewed whether the bank's systems and processes for the measurement of loans and advances to customers are designed to identify the acute risks with a sufficient degree of assurance within due time and also whether provisions are formed in the proper amount.

We then verified the functionality of the regulations and processes by auditing individual cases. This audit process was based on the relevant controls put in place by the bank.

We also conducted analytical audit procedures. In this context, the bank's database was assessed according to predefined audit criteria. This process took into consideration ratings but also the volume of unsecured loan components, the value at risk and the total loan commitment.

On the basis of this, we conducted individual reviews of selected loan exposures with regard to the need for and, if applicable, the appropriateness of risk provisions.

2.c)
Further disclosures from the bank on the recognition and accounting of receivables in the lending business are included in notes 2 and 13 of the notes to the annual financial statements.

Other information
The legal representatives are responsible for the other information.

Other information comprises the following parts of the management report, the content of which is not audited:
- the corporate governance statement pursuant to Section 289f (4) of the HGB (disclosures concerning the proportion of women).

Other information also encompasses:
- the separate non-financial report pursuant to Sections 289b to 289e of the HGB
- the remuneration transparency report pursuant to Section 21 (2) of the German Remuneration Transparency Act (EntgTranspG)
- the other parts of the annual report, without further cross-references to external information, with the exception of the audited annual financial statements and the management report as well as our audit report.

Of these sections, the following are to be provided by us after the date of the audit report:
- the separate non-financial report pursuant to Sections 289b to 289e of the HGB.

Our audit opinions on the annual financial statements and the management report do not extend to the other information and therefore we do not issue any audit opinion or any other form of audit conclusion in this regard.

In relation to our audit, it is our responsibility to read the other information and assess whether it
- contains any material discrepancies to the annual financial statements, the management report, or our findings determined during the audit or
- otherwise appear to have been incorrectly presented.

Responsibility of the legal representatives and the Supervisory Board for the annual financial statements and the management report

The Cooperative's legal representatives are responsible for preparing the annual financial statements in accordance with the German provisions under commercial law applying to cooperative banks in all key aspects and for ensuring that the annual financial statements provide a true and fair reflection of the Cooperative's net assets, financial position, and results of operations in accordance with the German generally accepted accouting principles. In addition, the legal representatives are also responsible for implementing the internal controls that they have determined to be necessary in accordance with the principles of proper accounting to allow the preparation of annual financial statements that are free of intentional and unintentional material misstatements.

In preparing the annual financial statements, the legal representatives are responsible for assessing the Cooperative's ability to continue as a going concern. In addition, they are also responsible for disclosing any and all relevant matters associated with the continuation of the Cooperative as a going concern. They are also responsible for accounting on the basis of the going-concern principle unless prevented from doing so by any actual circumstances or legal affairs.

The legal representatives are also in charge of preparing the management report, which provides a true and fair view of the Cooperative's situation and also corresponds in every aspect to the annual financial statements, complies with German legal requirements, and accurately presents the opportunities and risks associated with future development. Furthermore, legal representatives are also responsible for taking precautions and introducing measures (systems) they consider necessary to ensure that a management report that complies with applicable German legal requirements is prepared and to be able to provide sufficient evidence of the statements made in the management report.

The Supervisory Board is responsible for monitoring the Cooperative's accounting processes in the preparation of the annual financial statements and the management report.

Auditor's responsibility for auditing the annual financial statements and the management report
We aim to determine with a reasonable degree of assurance whether the annual financial statements as a whole are free of intentional and unintentional material misstatements, whether the management report as a whole gives a true and fair view of the Cooperative's situation and also corresponds in every aspect to the annual financial statements and the findings gathered during the audit, complies with German legal requirements, and accurately presents the opportunities and risks associated with future development, and also to issue an auditor's report that includes our audit opinions concerning the annual financial statements and the management report.

A reasonable degree of assurance is understood to be a high level of assurance but not a guarantee that an audit conducted in accordance with Section 53 (2) of the GenG, Sections 340k and 317 of the HGB and the EU AR, in consideration of the German principles of proper auditing of financial statements as promulgated by the Institute of Public Auditors in Germany (IDW) will always uncover material misstatements. Misstatements can result from legal violations or inaccuracies and are considered to be material if, taken individually or as a whole, they could be rationally expected to impact the financial decisions of readers of the annual financial statements and the management report made on the basis of these annual financial statements and management report.

- During the audit we exercise our discretionary duty and take a critical approach. In addition, we identify and assess the risks of material intentional and unintentional misstatements in the annual financial statements and the management report, plan and organise audit procedures as a response to these risks, and obtain audit evidence that is sufficient and suitable to serve as a basis for our audit opinions. The risk of material misstatements not being detected is higher in the case of legal violations than in the case of inaccuracies, as legal violations can include fraudulent conduct, forgery, intentionally incomplete disclosures, misleading statements, and the circumvention of internal controls;

- we gain an understanding of the internal control system relevant to the audit of the annual financial statements and the precautions and measures relevant to the audit of the management report in order to plan audit procedures that are appropriate under the given circumstances but are not aimed at issuing an audit opinion on the effectiveness of these systems;
- we assess the appropriateness of the accounting methods applied by the legal representatives and the acceptability of the figures estimated by the legal representatives as well as related disclosures;
- we draw conclusions on the appropriateness of the going-concern accounting principle applied by the legal representatives and, on the basis of the audit evidence, whether any material uncertainty exists in relation to events or circumstances that could cast significant doubt on the Cooperative's ability to continue to operate as a going concern. If we conclude that material uncertainty exists, we are obliged to draw attention to the corresponding disclosures in the annual financial statements and the management report in our auditor's report or, if these disclosures are inappropriate, modify our auditor's opinion. We draw conclusions on the basis of the audit evidence gathered up to the date of our auditor's opinion. Future events or circumstances can, however, lead to the Cooperative being unable to operate as a going concern;
- we evaluate the overall presentation, structure, and content of the annual financial statements, including the notes to the financial statements, and whether the annual financial statements present the underlying transactions and events in a manner that gives a true and fair view of the net assets, financial position, and results of operations of the Cooperative in consideration of the German generally accepted accounting principles;
- we assess the consistency of the management report with the annual financial statements, its compliance with legal requirements, and the view it gives of the Cooperative's situation;
- we conduct audit procedures concerning the forward-looking statements made by the legal representatives in the management report. Based on the existence of sufficient and suitable audit evidence, we verify in particular the significant assumptions that underpin the forward-looking statements made by the legal representatives and assess whether the forward-looking statements have been properly derived from these statements. We do not issue a separate audit opinion on the forward-looking statements or the underlying assumptions. There is a significant and unavoidable risk that future events will deviate from the forward-looking statements.

Together with the Supervisory Board, we discuss the planned scope and time frame for the audit as well as significant audit findings, together with any deficiencies found in the internal control system that we determine during our audit.

We issue a statement to the Supervisory Board that we have complied with the relevant independence requirements, discuss with them all relationships and matters that can be reasonably expected to affect our independence, and the countermeasures taken in this regard.

Of the matters we discuss with the Supervisory Board, we determine the matters that were most significant in the current audit period and therefore qualify as key audit matters. We describe these matters in the auditor's report unless we are prevented from disclosing this information due to statutory or legal requirements.

Other statutory and legal requirements

Other disclosures pursuant to Article 10 EU AR
As the responsible audit association, we are the statutory auditor of the Cooperative.

We hereby declare that the audit opinions in this auditor's report correspond to the report to the Supervisory Board pursuant to Article 11 of the EU AR in conjunction with Section 58 (3) of the GenG (audit report).

Persons employed by us that could influence the result of the audit performed the following services that were not disclosed in the annual financial statements or the management report of the audited Cooperative in addition to the audit of the annual financial statements for the Cooperative and for the companies it controls:

- audit of securities and custody business pursuant to Section 36 (1) of the German Securities Trading Act (WpHG) as well as its custodian function pursuant to Section 4 (1) of the German Investment Services Examination Regulation (WpDPV)
- confirmation of the cost allocation pursuant to Section 16 of the German Act Establishing the Federal Financial Supervisory Authority (FinDAG)
- audit of the completeness and accuracy of the intra-group holdings form pursuant to Article 49 (3) of the Capital Requirements Regulation (CRR)
- review of the non-financial declaration pursuant to Section 289b and c of the HGB
- audit of the data migration planned for 2020 from the bank21 systems of apoBank to the bank-specific Avaloq applications
- audit of the submission file pursuant to Section 50 (1) Clause 4 (b) of the articles of association of BVR Institutssicherung GmbH
- short assessment of the recognition of tranches of participation certificates
- issuing of a letter of comfort
- review of the abridged interim financial statements and the interim management report as at 30 June 2017 pursuant to Section 115 (5) of the WpHG (new version)
- audit of regulatory reporting obligations to calculate the amounts concerning the settlement fund for the year 2017 (bank levy).

Responsible auditor
The German Public Auditor responsible for the engagement is Arndt Schumacher.

Dusseldorf, 23 March 2018
Genossenschaftsverband – Verband der Regionen e.V.

Dieter Schulz	Arndt Schumacher
Auditor	Auditor

Responsibility Statement by the Legal Representatives

To the best of our knowledge we assure that the annual financial statements give a true and fair view of the net assets, financial position and results of the company in accordance with the applicable accounting principles and that the management report gives a true and fair account of the development of the business including the company's performance and position as well as the material opportunities and risks associated with the company's expected development.

Dusseldorf, 16 March 2018
Deutsche Apotheker- und Ärztebank eG
The Board of Directors

Ulrich Sommer   Dr. Thomas Siekmann

Olaf Klose   Eckhard Lüdering   Holger Wessling

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Obituary
In Memoriam 128

In Memoriam

Prof. Dr. Ernst-Dietrich Ahlgrimm

Dr. med. Dieter Mitrenga

Dr. med. dent. Stefan Schorm

The deceased were closely associated with apoBank as committee members. We have lost good friends and esteemed companions in our endeavours to advance the Bank.

We will cherish our memories of the deceased.

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Information about apoBank's locations is available online at
www.apobank.de/ueber-uns/filialen.html.

This report is available in German and English.
The German version is legally binding.